UNIVERSITY OF GHANA

COLLEGE OF HUMANITIES

CORPORATE GOVERNANCE, SHAREHOLDER ACTIVISM AND FIRM PERFORMANCE IN GHANA.

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THIS THESIS IS SUBMITTED TO THE UNIVERSITY OF GHANA, LEGON IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MPHIL FINANCE DEGREE

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DECLARATION

I, Alex Kwame Abasi, an MPhil (Finance) student of the University of Ghana Business School do hereby declare that this thesis is the product of my own original research work produced from research undertaken under supervision. I further declare that this piece of research or a part thereof has not been presented by anyone in this or any other university.

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CERTIFICATION

We hereby certify that this thesis was supervised in accordance with the procedures laid down by the University of Ghana.

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(Dr. Elikplimi Komla Agbloyor)

DEDICATION

This work is dedicated to Ephraim Fiifi Abasi who has been my source of inspiration to persevere and complete this academic programme.

It is also dedicated to Stella Nyamekye Otoo of blessed memory.

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Considering the stress and the immense pressures that I went through and nonetheless had the strength to get this work completed, I must say that I am so grateful to the almighty God for keeping me fit and seeing me through successfully.

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However any flaws that might be found in this research are certainly mine.

ABSTRACT

This study reexamines the effect of shareholder activism, as a corporate governance mechanism, on firm performance. The owners of the firm (the shareholders) employ the managers (the agents) to manage the firm for them but this employment contract has the potential risk of adverse selection and moral hazard. Hence there is the need for the shareholders to be active and monitor the firm. This constitute shareholder activism. But the argument is whether shareholder activism improves firm performance? Previous studies have found divergent conclusions because they all used the traditional accounting performance measure (ROA) which is not comprehensive enough because it does not account for the cost of equity. This study adopts contemporary value based performance measure, which is Economic Value Added (E.V.A) and Market Value Added (M.V.A) to measure firm performance from 2007 to 2013. These performance measures captures both costs of debt and equity which is able to show the true value of the firm.

The regression results show that shareholder activism actually improves firm performance (E.V.A). Implying that shareholders should be active investors and monitor their firms because monitoring improve shareholder wealth. Investor conference should also be encouraged to improve manager-shareholder relations so as to mitigate the agency problem.

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LIST OF ABBREVIATIONS

Activism: shareholder activism

ROA: return on asset

EVA: economic value added

NOPAT: net operating profit after tax

MVA: market value added

PAT: profit after tax

WACC: weighted average cost of capital

CAPM: capital asset pricing model

AGM: annual general meeting

EGM: extra ordinary general meeting

MD: managing director

SEC: Securities and Exchange Commission

NPV: net present value

CSR: corporate social responsibility

NGO: non-governmental organization

USA: United Shareholders Association

IPO: initial public offering

IC: investor conference

GSE: Ghana Stock Exchange

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate governance is an extensive subject which pertains to the relationship among the management (the agents), directors of the board, the owners of the firm (shareholders), and other stakeholders. It also pertains to the social system and procedures for directing and controlling companies (World Bank report, 2005).When this relationship is well managed the corporation performs well however, sometimes the relationship turns sour. This is because all the stakeholders' have interests and can influence the governance of the corporation to suit their interest.

The parties that are particularly relevant to this study include the management, the Board of Directors and the Shareholders. The shareholders are the weakest in this relationship in terms of power and influence due to information asymmetry and also because they are not part of the daily management of the firm. Though shareholders are the owners, however, since they may not have the expertise to manage the firm or because it is impossible for all of them to manage the firm at the same time, they employ managers to manage it for them, which constitutes an agency contract. This employment contract has potential risks of adverse selection and moral hazard.

Because of this possibility of adverse selection and moral hazard there is a need for external monitoring because, without external pressure from shareholders managers may behave in ways that are sub- optimal for the shareholders (Hillary & Oshika, 2003).

This monitoring constitutes shareholder activism and it is normally done by active shareholders. Abor (2007) states that "corporate governance is about supervising and holding to account those who direct and control the management" and the ultimate objective of shareholder activists is to do exactly that.

Shareholder activism can be defined as the actions taken by active investors who want to guard their investment to increase their wealth by engaging managers to meet their demands for reforms when managers are wasting resources. They do this either by being hostile or using diplomatic means to ensure good corporate governance system are adopted and moral hazard minimized so as to enhance firm performance (Brav et al, 2008 and Gillan & Starks, 2000).

Shareholder activism is a contemporary issue and has become important because of its effect on the firm and due to the media coverage it receives when it is launched. In addition, some studies show that activists play an influential role in improving corporate governance and ultimately, firm performance, though others find contrary results. Shareholder activism became a necessary tool for shareholders as a result of the realization of the agency problem where the owners of the firm are separate from the managers (Jensen & Meckling, 1976). This separation of control and ownership leads to agency problem which has to be managed, yet managing the agency problem attracts agency costs which has to be reduced. However, Grossman & Hart (1980) and Shleifer & Vishny (1986) posit that it is unprofitable for shareholders to hold their agents accountable because of high monitoring cost and free riding problem.

As to whether activism increases shareholder value and, for that matter, firm value is an issue that has attracted varied opinions. This thesis examines the effect of active shareholder monitoring on managers, corporate governance and firm performance.

Though considerable research has been done on corporate governance issues and firm performance but very little has been done on shareholder activism (activism) and firm performance.

The few studies that have been done on activism too, none of them used value based metrics in their empirical examination, all of them used accounting based performance measures (ROA). This study therefore is the first to use Economic Value Added (EVA) and Market Value Added (MVA) to find the actual effect of shareholder activism on the firm`s profitability and corporate governance.

1.2 Research Problem

Previous studies mostly adopted return on asset (ROA) as a measure of firm performance, which is not extensive enough because it does not capture costs of equity. As a result, these studies have produced mixed conclusions. There is therefore the need to use other superior measure of performance to establish the real effect of activism on the firm and so this study adopts Economic Value Added (EVA) and Market Value Added (MVA) as measures of firm profitability, to reexamine the effect of shareholder activism on firm performance.

According to Gantchev (2013) “Shareholder activism can be diplomatic or confrontational depending on management reactions”. And it normally “begins as a sequence of escalating decision steps, in which an activist chooses a more hostile tactic only after less confrontational approaches have failed”.

A sequential case in Ghana is the case of Cal bank in 2007. In August 2007, Cal Bank, a universal bank in Ghana reported a profit after tax (PAT) of GH₵4,700,000, which represented 76% growth from the 2006 financial year`s PAT. Realizing the profit, the owners (the shareholders) demanded an increase in the dividend being paid to them.

However, the Managing Director (M.D), Mr. Frank Adu Jnr rejected their request stating that the bank needed more capital for investment. Following this, in June 2008, Mr. Afari Donkor, the single largest individual shareholder of the bank (holding 10% share), called for an extra ordinary general meeting (E.G.M) and demanded the ousting of the M.D, getting himself voted to serve on the board and an increase in the bank`s stated capital to GH₵100m through a rights issue instead of the GH₵200m that was proposed at the banks A.G.M among other things. This was preceded by the resignation of Alhaji Asuma Banda (director) and George Okoh (board chairman) of the bank.

To Mr. Afari Donkor, his proposal was motivated by an under-performance of the bank. At the EGM, two of the resolutions were defeated, that is, the demand to oust the M.D and getting himself elected to be on the board, however, the resolution to increase the stated capital was approved (myjoyonline.com, 2014).

Despite this widely publicized incident, coupled with some other cases, no study has been sighted on shareholder activism as a corporate governance mechanism and it effect on firm performance in Ghana even though Klein & Zur (2009) did a comparison study on hostile activism and non-hostile activism, and concluded that the stock market respond positively to hostile activism.

Also Brav et al. (2008) and Kandel, Massa & Simonov (2011) find that activism improves firm performance and corporate governance however Black (1998) and Choi & Cho (2003) found that activism has little effect on firm performance. The issue of shareholder activism is nascent in Ghana and so there is paucity of literature on the subject in the Ghanaian context.

1.3 Research Purpose

Corporate governance is broad and comprises many variables. Many authors have looked at corporate governance from different perspectives usually influenced by the variables. Some of these variables that have been studied are dividend policy, shareholder activism, firm financing, disclosure quality, top executive turnover, board composition, equity prices, CEO compensation etc (Abor, 2007; Kyereboah-Coleman, 2007;Gompers, Ishii, & Metrick, 2001).

Some of the literature on shareholder activism show that it has effect on corporate governance which eventually impact on firm performance. Gantchev (2013) finds that shareholder activism has the potential to mitigate the agency problem persistent in corporate management. Much has been done in the developed countries (Strickland et al., 1996; Gantchev, 2013; Gillan& Starks, 2007; Kandel, Massa, & Simonov, 2011). In developing countries too, some studies have been done in India (see Sarkar & Sarkar, 2000), and in Africa some studies have been done on shareholder activism in South Africa (Boshoff, 2012) and in Nigeria (Amao & Amaeshi, 2008).

However, in Ghana the issue of shareholder activism is nascent and no study has been sighted hence it is essential to study the nature and effect of shareholder activism in Ghana using different performance measurement to capture the actual impact of activism on the firm. This study therefore investigates the nature and effect of shareholder activism on firm performance in Ghana for the period of 2007 to 2013 using EVA and MVA.

1.4 Research Objectives

The objectives of this study are:

i. To investigate the nature of shareholder activism in Ghana.

ii. To investigate the effect of shareholder activism on firm performance.

1.5 Research Questions

i. What is the nature of shareholder activism in the Ghanaian context?

ii. What is the effect of shareholder activism on firm performance and shareholder value?

1.6 Significance of the Research

The significance of the study engulf three perspectives: these are research, practice and policy. With regard to research significance, this study goes beyond the current research on corporate governance and firm performance by looking at a very vital variable of corporate governance which is shareholder activism, which has received little or no attention in Ghana.

It also contributes to knowledge by being the first to use E.V.A and M.V.A as a performance measure, to estimate the effect of activism on firm performance. Regarding significance to practice, the study provides insight to firms on the level of influence of shareholder activism and its impact on the firm. This will help managers to strategize for it. Regarding significance to policy, the study provides feedback on policies driving the agency problem.

1.7 Limitations of the Study

Information Disclosure: The main challenge has been data collection. Specifically, data on activism is considered confidential in most of the organizations that I went for data collection. Some of the officers were of the view that the issue of activism is mostly discussed at the board level and so they were hesitant in releasing the data.

Poor data keeping: Another challenge has been that some of these institutions do not keep proper records of their meetings. So they have no or little institutional memory of the events that happened years back.

1.8 **Chapter Outline**

The chapters are outlined as follows: Chapter one comprise the background of the study, the objectives of the study, the research problem and the significance of the study. Chapter two reviews literature appropriate for this study. Chapter three looks at the nature of shareholder activism in Ghana. Chapter four presents the methodology for the study which covers the model to be used and sources of data. Chapter five presents the regression results and analysis and chapter six draws conclusions from the findings of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter seeks to review academic articles, books and other publications that are relevant to this study which are from reliable sources. The purpose at this stage is to ascertain the critical thinking that has gone into previous studies relating to this study area that can aid in achieving the objective of the study.

2.2 Corporate Governance

Investors are always concerned about recouping the principal amount plus the interest they will earn when parting with money. In most instances they institute measures that will ensure that their investment is secured and this form a part of corporate governance. Issues of corporate governance in Ghana are contained in the Companies Code 1963, Act 179, the Securities Industry Law 1993, PNDCL 333, and the Membership and Listing Regulations of the Ghana Stock Exchange.

Some authors posit that “corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment” (Shleifer & Vishny, 1997). Other authors look at it from a broader perspective and conclude that it tests the manner firms are directed, administered and controlled through different sets of processes, traditions and laws (Abor, 2007; World Bank Report, 2005). It is noticed from argument above that corporate governance takes different forms but one fundamental and significant objective is to ensure the accountability of the managers in a firm by reducing the Principal-Agency problem.

The governance system is such that in order to safeguard the interest of shareholders, who are the suppliers of the funds, "internal and external corporate governance mechanisms are implemented to keep management`s interests in line with those of the shareholders". Examples of internal mechanisms include ensuring board independence, thus appointing or electing more non-executive board members, instituting incentive schemes to motivate managers to work in the interest of their principals, and appointing independent external auditors to scrutinize the work of the managers.

The external mechanism, which is shareholder activism is normally "triggered once internal mechanisms for checking management opportunism have failed" (Kyereboah-Coleman, 2007; Lillihook & Margolin 2008). Some previous studies show that good corporate governance has a positive relationship with firm performance whereas others disagree. Those that argue that activism improve firm performance posit that it makes managers sit up and take good investment decisions, minimize waste and take better tax decisions, including tax avoidance strategies which minimizes costs which then enhance profitability. Davis (2002) states that managers have the discretion on dividend issues and also on capital investment decisions which determines shareholder wealth thus making shareholders vulnerable. Consequently, to safeguard their interest, shareholders must improve corporate governance to ensure that managers make good investment decisions that will enhance the firm`s performance.

In Ghana corporate governance issues are guided by the companies' code and the Corporate Governance – Guidelines on Best Practices by the Securities and Exchange Commission (SEC). This guideline states that the principles of corporate governance cover 5 areas:

1. The right of shareholders

2. The equitable treatment of shareholders

3. The role of stake holders

4. Disclosure and transparency

5. The responsibilities of the board

This guideline seeks ultimately to safeguard the interest of shareholders who are the owners of the firm and also to ensure that the interests of other stakeholders are not neglected. Nonetheless, shareholders can benefit from this guideline only if they actively monitor the operations of the managers (the agents).

2.3 Agency Theory

The agency theory was propounded by Berle & Means (1932) and Jensen & Meckling (1976). Jensen & Meckling (1976) defined agency relationship as a contract between a principal and agent under which the principal engages the agent to perform some service on his/her behalf which involves delegating some decision making authority to the agent.

They explain that since shareholders are dispersed and cannot all manage the firm at the same time, they leave the firm in the hands of the managers thus making it difficult to supervise these managers which cause an agency problem. This agency problem emanate as a result of adverse selection and moral hazard which occur because of the separation of ownership and control of the firm.

The shareholders are the financiers of the firm but all of them cannot be managers of the firm and so they employ agents (managers) to manage their funds and generate returns for them. The "agency problem in corporate governance is due to management, prioritizing its own benefits rather than shareholder value". The problem here is the difficulty that financiers encounter in ensuring that their invested capital is not expropriated or wasted on negative NPV projects or less profitable projects (Kandel, Massa, & Simonov, 2011; Lillihook & Margolin, 2008; Shleifer & Vishny, 1997).

Stern Stewart & Co. (2000) posit that mature firms normally generate large levels of free cash flow which leads to excess capital with the tendency to retain and then waste these capital through overinvestment and diversification schemes. But investors do not need firms to do diversification for them.

And so EVA performance metric guarantees that managers account for using equity just as they would have done for using debt without much trouble of setting extensive covenants.

Previous studies show that dispersed shareholders leave the firm at the mercy of the managers who can expropriate from the firm`s owners at will. This brings conflict between the shareholders and the managers.

Sometimes too, shareholders and managers conflict is caused by overconfidence or hubris on the part of managers which makes them take more risks than preferred by investors (Malmendier & Tate, 2008; Roman, 2013).The Agency problem can also be caused by information asymmetry where there is no transparency between shareholders and managers, that is there is less information disclosure (Levine, 2004; Morgan, 2002: Furfine, 2001).

These managers have access to more information about the firm and its outlook than its owners, that is the shareholders, which give the managers a better advantage than the investors (Davis, 2002) and so it is expected that there is a good information disclosure system in place to ensure that shareholders know as much about the firm as the managers do and this can be achieved when there is good corporate governance system in place.

This separation of owners of the firm (principal) from the managers (agents) of the firm brings about agency costs that must be reduced and this is done through monitoring (Strickland, Wiles, & Zenner, 1996).

So the probable resolution to diminish agency problems is shareholders monitoring the firm`s management. This monitoring can be a chance for shareholder to minimize the agency problems and get greater returns from their investment (Roman, 2013; Gantchev, 2013).

It is quite obvious from these studies that naturally, economic agents have a tendency to behave in ways that satisfy their personal interest, and in listed companies, that will bring problems between management and shareholders therefore monitoring the firm is required in order to protect shareholders' interests. This is crucial as it has been found that when managers pursue their personal interest to the detriment of shareholders interest, it brings about poor firm performance, poor investment decisions and low stock prices. Theses costs of agency problem even becomes severe when shareholders are unable to monitor and control management. This gives managers the chance to be entrenched in their decision making trend (Manry & Stangeland, 2003). As a result, Lim (2003) find that even bondholders see shareholder activism as a monitoring tool that decreases the opportunities for managers to expropriate thereby mitigating the agency costs.

As a corporate governance mechanism Brav et al. (2008) also find that activism reduces "agency problems associated with free cash flow and subject managers to better market control". It also increase ROA and profit margins but this happen in the long run. Kyereboah-Coleman (2007) posits that "agency costs include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems and residual loss due to divergence of interests between the principal and the agent". These are the costs associated with agency problem which must be borne by the shareholder however, to enhance firm value the shareholders must reduce these agency costs.

2.4 Shareholder Activism

The Securities and Exchange Commission of Ghana (SEC) encourages shareholders to "demand acceptable standards of corporate governance from management of the firms they invest in". The SEC also encourages all investors who are in the position to influence firms to try to do so in order to boost compliance with corporate governance practices that have been put in place. This imply that the SEC encourages activism.

Gillan & Starks, (2007) define shareholder activists as" investors who are dissatisfied with some aspect of a company`s management or operations, and so try to bring about change without a change in control". This description suggest that activism is seen as a tool not pursuing to take over, but rather, to bring amendment and retain management. This form of activism can be described as defensive activism (MacNei, 2010). Tirole (2005) states that "active monitoring consists of interfering with management in order to increase the value of the investors` claim". In this definition the interest is on EVA and MVA, that is increasing the firm`s value. This form of activism can be described as defensive activism.

Another approach is where shareholders buy shares in firms in order to have control and put pressure on the management of companies to effect change (Lillihook & Margolin, 2008). This form of activism can be described as offensive activism. This means shareholder activism is normally initiated by dissatisfied shareholders who try to influence and improve the policies and strategies of their firms through negotiations, communication and pressure. The underlying concept in this definition is that this activity is triggered when shareholders are dissatisfied with the output from management and would want to change the result and typically, this activity is undertaken by active shareholders.

Shareholder activism can therefore be defined as the actions taken by active investors who want to guard their investment to increase their wealth by engaging managers to meet their demands for reforms when managers are wasting resources, and they do so either by being hostile or using diplomatic means to ensure good corporate governance system are adopted and moral hazard is minimized so as to enhance firm performance (Brav et al, 2008 and Gillan & Starks, 2000).

Activism can be diplomatic or hostile and Brav et al (2008) states that hostile activism generate higher returns. They define hostility to include “threatened or actual proxy contest, take over, lawsuit or public campaign that is openly confrontational”. Majority of activism take the form of deliberations and negotiations behind closed doors and so it is normally hard to track. The activists can also take the Wall Street walk.

Activists use many strategies and one of them they use in recent times to promote activism is the social media where a lot of discussions take place which has the potential of reaching out to the wider population. This can influence many shareholders voting with their feet or taking the Wall Street walk or to win proxy voting. These dissatisfied investors don`t pressure management, for change, but they just take the Wall Street Walk, which reduces share prices and affect the managers` income if it is tied to share price (Emkuzheva, Paulini & Zymogliad, 2013). It also sends a signal to other investors that the firm is underperforming. On the other hand, some investors as well, instead of taking the Wall Street Walk, may decide "to continue to hold their shares and seek to induce changes within the firm" either with or without the intention of having control (Rennebook & Szilagyi, 2011). Greenwood & Schor (2009) find that activism generates positive result however, this is possible only if the activists succeed in forcing the target firms into takeovers. They state that one reason why there are high returns when activism is launched is because investors expect that the target firms will be acquired and this will be done at a premium thereby pushing the share price up.

Another reason for higher share prices during an incidence of activism can come from the expectation that the incidence of agitations and demands generates worth to shareholders through pressuring management to put in place "operational, financial or governance reforms". They also find that "activists are most successful at creating value when they are able to effect a change in control".

Surprisingly, they do not think that shareholder agitation has any direct effect on the way firms are govern rather "hedge funds invest in small, undervalued firms with the ultimate objective of seeing these targets bought out". This is in sharp contrast to the findings of Strickland et al. (1996) who find that the objective is to put pressure on management for improved performance and governance

Regarding active and passive shareholders it is found that institutional investors in Korea are passive on governance issues (Choi & Cho, 2003). The active shareholders are proactive and tend to evaluate managers' decision and take actions when the decisions will not produce economic benefit.

This is stated by Krishnan, Masulis & Thompson (2012) who posit that shareholder activism is normally triggered by mergers and acquisitions that seek to promote empire building. Litigations form part of activism and it is found to be a good form of monitor for shareholder value, however, this is likely to be the last resort because activists begin by engaging managers.

Some firms are more vulnerable to activism than others. As an external control, activists typically "target firms that underperform and also have weak governance structure" (Renneboog & Szilagyi, 2011). This monitoring is an external control and it comes with some costs, so what will make activists still monitor when it has associated costs that must be borne by them?

2.5 Incentive to Monitor

For monitoring to be effective, there should be the incentive to monitor. A "shareholder`s incentives to actively monitor are determined by a trade-off between the private costs of monitoring, which are fully paid for by the activist, and the public benefits of monitoring, which are shared among all firm shareholders thereby creating the free riding problem" (Grossman & Hart, 1980; Shleifer &Vishny, 1986; Gantchev, 2013). So why don`t investors simply take the Wall Street walk when they are not satisfied with the performance of the firm since monitoring is expensive? The answer is that some firms do take the Wall Street walk however, when the shareholder holds a majority of the stock then taking the Wall Street walk becomes an imprudent decision compared to the choice of staying and ensuring that management does the right thing to bring good returns to investors.

Thus while shareholder activism "has the problem that improvements in the firm benefits all shareholders while costs accrue only to agitators, exit may lose its impact as a governance tool as institutions are increasingly forced to hold large control of stocks regardless of performance" (Helwege, Intintoli, & Zhang, 2012).

This has been confirmed by the head of equity of Social Security and National Insurance Trust (SSNIT) who stated during an interview with her that once they start a process of demand for reforms "exiting is not an option". These shareholders are quite aware of their role as owners therefore they will rather stay and fix the problem. So it is quite obvious that the impetus driving shareholder activism is financially driven with the objective of receiving better returns.

Chung & Talaulicar (2010) explain that shareholder activism can be categorized into two, thus those that are financially driven and those that are socially driven. Besides having the objective of improving profitability, shareholder activists also sometimes aim at “influencing corporate management and boards in order to make corporations change in corporate social responsibility (CSR)”. This is socially driven sort of activism (Judge et al, 2010) and the objective is to achieve social benefit. The financially driven sorts of activism target the financial performance of firms and try to pressure management to improve performance. The Socially driven sorts of activism are done by people who are concerned about the negative externalities of the operation of the firm. They as well sometimes focus on making firms increase their corporate social responsibility (CSR). These may include the shareholders, the community or NGOs including religious bodies, environmentalist, and labour organisations and other stakeholders (Chung & Talaulicar, 2010). Some of the major strategies used by these activists are lobbying activities, media advocate and judicial activities (Girard & Gates, 2011). That is activists can seek direct talks with management, seek media coverage of the issues that they advocate for or judicially, they can file law suits depending on the context or geographical location of the firm. This thesis focus on the financially driven sort of activism. Gantchev (2013) states that monitoring will be effective when the net returns are positive. In other words if the returns generated from activism is greater than the costs incurred then shareholders will be incentivized to monitor.

2.6 Shareholder Activism in different Countries

The nature of shareholder activism varies in different countries. Previous studies in different countries find varied results. For instance MacNeil (2010) studied shareholder activism in UK and found that due to the dispersed nature of shareholders, shareholders form coalitions and engage managers to achieve effective monitoring. Lilliehook & Margolin (2008) find that shareholder structure in the United States of America (USA) is dominated by individual investors, hence activism generate a lot of free rider problems making it unprofitable, but contrary to the USA, the shareholder structure in the United Kingdom is dominated by institutional investors.

Davis et al. (2013) looked at shareholder activism in the UK and find that when shareholders require directors to call a general meeting of the company, then the directors must call a general meeting "once the company has received requests to do so from shareholders holding at least 5% of the paid-up voting share capital of the company". And a significant shareholder does not necessarily have a legal entitlement to board representation.

Moreover, directors do not have a duty to enter into private discussions or negotiations with a shareholder activist or any other shareholder. However, in practice, there will normally be a meeting with the activist to understand their concerns and objectives. And there is no limit on the number of times that a shareholder can requisition a general meeting.

Henry et al. (2004) also find that the boards of directors in the UK are less restricted and less powerful when compared to those in the US when it comes to legislative differences between the US and the UK. And so it easy for activists to oust directors in the UK (MacNei, 2010).

In France, Gerard & Gates (2011) found that shareholder resolutions are rare. Selecting a target firm could be driven by underperformance, governance or social and environmental issues.

And that hostile activism takes the form of publicized exit, by a dissatisfied shareholder, or a takeover attempt and or a law suit.

In Africa, some studies in Nigeria and South Africa show that shareholders can requisition for Extraordinary General Meeting (EGM) any time, they also get a financial statement made available to them for not less than three weeks leading to the annual general meeting and they have representatives at the audit committee to examine the auditor`s report. Amao & Amaeshi (2008) state that corporate governance reforms in Nigeria have led to shareholders forming associations that have helped better corporate governance which hitherto was poor. However in South Africa, there is information asymmetry making it difficult for shareholders to know about what is happening in the firm (Amao & Amaeshi, 2008; Bishoff, 2012).

In Ghana the SEC stipulates that shareholders must have the following right to influence the corporate entity:

1. The election of board members
2. Issues concerning changes in the capital structure
3. Issue concerning amendments to the regulations of the company
4. Approval of extraordinary transactions
5. Approval of auditors
6. Approval of the distribution of profits

The SEC however, does not provide any clear guidelines on shareholders` investment strategy neither does it prescribe the optimal degree of shareholder activism though activism is encouraged.

2.7 Activists Target Poorly Performing Firms

Some authors have argued that activists do not target just any firm. They suggest that activist shareholders target firms that underperform then they force their managers to increase output so that they can enhance shareholder value. A study of the United Shareholders Association (USA) indicate that the USA targeted companies that exhibited “poor financial performance, top executive compensation plans that were not sensitive to firm performance and policies that limited shareholder input on governance issues”. And when firms persistently underperform, prior studies show that CEO`s are normally removed (Strickland et al., 1996; Helwege, Intintoli, & Zhang, 2012; Gantchev, 2013).

One crucial characteristics that was found by Brav et al (2008) is that target firms normally show trading liquidity, which enable investors to procure substantial shares rapidly to enable them launch the pressure. Issues of this nature in Ghana have been the takeover case of HFC bank. Admati & Pfleiderer (2009) find that stock liquidity helps improve corporate governance because it enable firms to quickly buy and sell shares.

MacNeil (2010) classifies shareholder activism into defensive and offensive activism. Activism is defensive when it seeks to protect shareholders` value in an already invested firm and it is offensive when it seeks to acquire shares in an undervalued firm and subsequently launch an attack which leads to rise in share price. Whereas every listed firm can experience either defensive or offensive activism, poorly performing firms have higher probability and are vulnerable to suffering both defensive and offensive activism.

2.8 Divergent opinions on Value Creation of Activism

There are divergent opinions on the returns generated by activism. Some findings posit that activism improves corporate governance, though its impact on the stock price is very minimal. Some too suggest that activism increase stock price in the short run, but it does not increase stock price in the long run (Black, 1998; Karpoff, 2001). This suggests that there are short term gains but activism does not generate returns in the long run. Others even suggest that activism is a tool used by big companies to get media attention, thus activism is employed not to increase profitability but with the objective of achieving publicity (Lillihook & Margolin, 2008).

But Becht et al. (2006) finds that there are three fundamental reasons why some studies are unable to link activism with improved firm performance, that is, less monitoring, restricting laws and protective measures. Thus, monitoring that is not rigorous enough to generate returns and laws that do not encourage active monitoring.

However, some also find that activism can increase firm value and can be an effective monitoring mechanism (Brav, Jiang, Thomas, & Partnoy, 2008; Greenwood &Schor, 2009; Klein & Zur, 2009), however it can be a disrupting act because it can increase risk taking. But Gantchev (2013) posits that activists are more successful at certain objectives and less successful in other objectives.

That is "activists are most successful when demanding a sale or privatization, restructuring of inefficient operations, and additional disclosure, but less successful when asking for higher dividends or share repurchase, CEO removal, or executive compensation changes". After studying behavior of small shareholders, Kandel, Massa & Simonov (2011) find that activism has a strong effect on stock prices.

Though they did not find improvement in firm performance, Choi and Cho (2003) find that shareholder agitations do not impact negatively on firm profitability as has been concluded by some authors.

Karpoff (2001) conclude that these divergent opinions over whether activism creates value and improve corporate governance or not are more perceptible than actual.

2.9.1 Activism Adds Value

Worthington & West (2001) state that when a market is informationally efficient then any available information is quickly consumed and incorporated into future stock prices. So those authors that posit that activism adds value states that shareholders with similar characteristics behave in common in reaction to information about a firm hence shareholders with similar characteristics behave in ways that either decrease or increase profitability and therefore affect the profitability of the firm. Thus they may not launch any organized activism but their common behavior will influence the market behavior and compel managers to improve performance.

The findings show that activism generates gains and these gains are shared by both activists and free riders. For banks, it shows that activism creates market value but it increases default risk due to higher risks taking in their quest to increase wealth.

Regarding corporate governance, activism leads to improvement in firms' corporate governance and profitability, which translate to improved shareholder wealth. Comparison show that in the long run firms that experience incidence of activism record higher profitability than those that do not (Roman,2013; Kandel, Massa & Simonov, 2011; Bechk, Frankes, Mayers & Rossi,2009; Ameer & Rahmon, 2009; Sarkar & Sarkar, 2000).

Hedge fund activism for instance brings improved performance and also higher stock prices thereby enhancing shareholder value. Target firms also experience increase in dividend (Brav et al 2008; Strickland et al 1996).

2.9.2 Activism does not Add Value

There are some authors as well that find no relationship between activism and value addition. They state that there is no change in financial performance when there is activism, implying that firms which were profitable continue to be profitable than their peers and those that were not profitable maintained their poor performance therefore activism is ineffective in increasing shareholder value, it has no impact on firm performance and so there is no link between activism and firm performance (Choi & Cho, 2003; Karpoff, 2001 and Black, 1998).

There is also the possibility of price decline that is attributable to activism but Brav et al (2008) state that this happens only after an activism has been unsuccessful. This diminishes the expectation that take-overs will improve the performance of the firm and that the governance system will improve.

2.10 Activism/Wall Street Walk as an Effective Governance Mechanism.

Good corporate governance improves firm performance but it require discipline from management. And because shareholders are not part of the internal stakeholders of the firm, it becomes difficult to quickly get the managers to implement good corporate governance policies. Active shareholders have two options at their disposal when their firm is underperforming, thus either to take the Wall Street walk or hold on to their stocks, agitate and engage management so that better corporate governance policies are implemented. Current academic works suggests that taking the Wall Street walk is an effective way of sending signal to the managers that the shareholders are unhappy with some decisions that they have taken.

So if shareholders choose to take the Wall Street walk of poorly performing firms, the sale of their stocks can pressure management to sit up and do better and improve corporate governance (Admati & Pfleiderer, 2009; Edmans & Manso, 2011; Qian, 2011).

Strickland et al., (1996) studied the United Shareholders Association (USA) and find that “the USA was successful in influencing corporate governance and in enhancing shareholder wealth”. It also find that the USA succeeded in encouraging the SEC to ease its rules about allowing shareholders to communicate about corporate issues. It also succeeded in pressuring corporations to change governance characteristics that were considered to be hostile to shareholders` interest and it generated wide acceptance of its shareholder rights philosophy. These success show that shareholder activism improves corporate governance.

Also, Kandel, Massa & Simonov (2011) found that shareholder activism has great influence on the behavior of the managers and the organizational policies of the firm, that is shareholder activism contribute to the proper functioning of a firm`s corporate governance system.

In the United State of America for instance Brav et al. (2008) posit that a well-organized shareholder activists union like the (USA) proposed strategic solutions, operational and financial remedies to the managers of their firms for implementation and usually they obtained full success or partial success in most cases. Unlike other shareholder activists, the USA usually did not seek control and so in most cases their approach were non-confrontational which tell us that they used negotiations to achieve their objectives. It has also been shown that incidence of shareholder activism generate positive returns for the firm just that the costs of activism alone takes away about 70% of the positive returns (Gantchev, 2013). Gillan & Starks (2000) examined the effectiveness of shareholder activism and find that “proposals sponsored by active individual investors garner fewer votes and are associated with a slight positive impact on stock price”.

They also found that on the contrary "proposals sponsored by institutional investors or coordinated groups of investors receive significantly more votes and appear to have some small but measureable negative impact on stock prices". In addition, they concluded that coordinated activism have a positive influence on management when negotiating with corporate management. They proceed by saying that activist demands that target "executive compensation, and limitation of director terms receive low voting support" and therefore are not effective in "pressuring corporate management to pursue reforms". Thus proxy fight is more effective for activist unions to improve corporate governance, but ineffective for individual activists.

2.11. Stewardship Theory

Donaldson & Davis (1991) in arguing against the agency theory propounded this theory that suggests that the ultimate objective of every CEO is to maximize the firm`s performance because it is the prime objective of every CEO to achieve success and this is satisfied when the firm is performing well. This theory suggests that there is no agency problem hence shareholders can invest their funds and trust that the managers will invest it wisely, that is they will invest in only positive NPV projects with no likelihood of empire-building motive or any possibility of moral hazard. The assumption is that the managers will continuously remain loyal to the shareholders without any conflict of interest. If this is the case, then there will be no need for shareholder activism. The shareholders do not need to incur monitoring cost because without monitoring, shareholder value will still be created for the shareholders by managers.

2.12 Stakeholder Theory

Stakeholders are people who are affected one way or the other by the operations of the firm. According to Hill & Jones (1992), stakeholders include shareholders, creditors, managers, employees, customers, suppliers, local communities and the general public. Each of these stakeholders have a legitimate claim on the firm because there exist an exchange relationship between the firm and each of these stakeholders. They state that shareholders provide the firm with capital and in exchange they expect the firm to maximize the risk-adjusted returns on their investment. Creditors provide the firm with finance and in exchange they expect their loans to be repaid on time. Managers provide the firm with their time, skills and human capital and in exchange they expect fair income and good working conditions. Customers supply the firm with revenue and in exchange they expect value for their money. Suppliers provide the firm with inputs and in exchange they expect fair prices for their inputs and reliable buyers. The local communities provide the firm with locations, a local infrastructure and perhaps favorable tax treatment and in exchange they expect good corporate citizens who do not damage their environment. And finally the general public as tax payers provide the firm with national infrastructure and in exchange they expect good corporate citizens who will enhance the quality of life and do not violate their laws (Hill & Jones, 1992).

Stakeholder theory was propounded by Ed Freeman (1980). This concept suggests that too much priority is given to the shareholders of the firm. It advocates that the firm should rather be managed in the interest of all these stakeholders stated above.

This theory has helped generate wide acceptance of the concept of the corporate social responsibility (CSR) which enable the society to also benefit from the firm. Sometimes the objective of shareholder activists is to make demands that satisfy all stakeholders and not just shareholders, that is the socially driven sort of activism. In such instance the objective of the activists conforms to the stakeholder theory concept.

2.13 The Presence of *Sokaiya* or *Disturbatoris*

Some of the corporate managers see activism from different perspectives. Instead of seeing it as a means of putting them on their feet to take proper decisions, they rather see them as a threat to their career development and also as a group of investors who want to satisfy their self-interest by causing embarrassment to the managers.

As a result, they resort to some techniques to suppress activism during the Annual General Meetings (AGM) and the principal technique they employ is called *Sokaiya* in Japan (Hilary & Oshika, 2008). *Sokaiya* can be termed as corporate extortionists who operate during AGMs. It is also called *Disturbatoris* in Italy and *Chongheoggun* in South Korea (West, 1999). What they basically do is to intimidate the shareholders with genuine concerns, just so as to ensure that the meeting proceed as planned by the managers. This is done for a fee to protect the managers who pay them for that purpose.

They are termed as extortionists because they threaten to disrupt the meeting if the managers, in subsequent years refuse to pay them their demands. The problem is that this group of investors makes it difficult for the public to really know genuine activists. The issue of *Sokaiya* seems to be so prevalent to the extent that studies suggest that blue chip firms such as Toyota, Hitachi, Toshiba, Mitsubishi and Nissan have one way or the other admitted to paying or is believed to have been paying-off the distubatoris.

In one instance the AGM of a retailing firm in Japan, Matsuzakaya lasted for 4 hours and 3 hours in 1994 and 1995 respectively due to the presence of *sokaiya*. The meeting length (spikes) reduced to as low as 19 minutes when the firm started paying them (Hilary & Oshika, 2008). This is a threat that disrupts the corporate governance system that has to be addressed.

In Ghana a careful study of minutes from AGMs provided by SEC show the presence of *sokaiya*. However, unlike the form in Japan, *sokaiya* in Ghana is practiced by a few individual investors who do not form groups. These few investors manage to acquire small shares in several firms and use that to get access to their AGMs and launch their attacks or in most case they resort to giving excessive praises to management just to create the impression that management is doing well and that they should keep up the good work even when performance indicators are showing under performance.

The minutes obtained from SEC show certain individuals whose names run through the various minutes from firm to firm with almost the same approach: thus showering praises on management when other shareholders were complaining that management had done little to better their fortunes. They do this such that they are given priorities to speak and by doing so they deny or suppress the genuine shareholder activists from having access to the platform to make their demands. This act is inimical to good corporate governance system in Ghana.

2.14 Board Size and Independence

Corporate governance is influenced by many variables and one of them, which is very crucial for firm performance has been the board of directors of a firm and its size. The SEC- Ghana guidelines do not mandate any specific limitations on the size of a board of a firm in Ghana but it advocate that a board size of between 8 and 16 members is considered ideal however, Lipton & Lorsch (1992) recommend that an ideal board size should be between 7 and 9. Some other studies also show that large board size increases shareholders value and that holding the positions of CEO and board chair simultaneously has a negative effect on firm performance (Kyereboah-Coleman, 2007).

Contrary to this notion is the organizational theory which states that large groups take comparatively longer time to make decisions and thus will require more time to achieve an objective (Steiner, 1972), they suffer groupthink. Wagner (2011) states that “the feeling is that boards of directors sometimes act too much in line with the CEO`s preference rather than with shareholders preference and that some board consist of persons extremely loyal to CEOs” as a result many countries are adopting novel standards of corporate governance that enhance board competence and independence. The outcome of competent board is that it is capable of helping the CEO to evaluate projects and choose the one that enhance shareholder wealth. The politics of this relationship is that the CEO usually prefers to have the loyalty of the board of directors which will enable him to get their approval to invest in any project even if it will yield negative NPV. So why will a CEO want to take a negative NPV project? The answer in the literature has been that it is for the purpose of empire-building. And the board can agree to take these projects if they receive some rewards.

Wagner (2011) argues that it is incompetent board that easily becomes loyal to the CEO and that competent board requires large rewards to be loyal to the CEO.

He posits that as shareholders become more powerful and able to elect competent board they should be less worried that the board will become loyal to the CEO instead of them.

On the other hand if the CEO has no empire building motive then he will favor competent board because it will facilitate his objective of increasing value. SEC-Ghana explains board independence to mean a requirement "that a sufficient number of board members should not be employed by the company or be closely related to the company or its management through significant, family or other ties". The purpose is that independent board members serve vital role in areas where the interests of management and shareholders may differ such as executive remuneration, succession planning, changes of corporate control and the audit function and they do it better when they are neutral however, Adams & Mehran (2010) studied the relationship between board governance and performance in banking and conclude that board independence is not related to performance. One crucial finding is the one by Kyereboah-Coleman (2007) who posits that with respect to country estimations all the countries he studied in Africa, except Ghana showed a positive link between the size of the board and performance of the firm. Adams & Mehran (2010) also studied corporate performance and board structure in U.S and found a positive relation between board size and firm performance.

2.15 C.E.O Tenure

Because experience enhance knowledge and knowledge increase efficiency, it has been found that the longer the CEO stays in office, the more he acquire experience and this helps in taking better decisions which increase the firm value. That is to say that the tenure of office of a CEO increases a firm`s performance. Contrary to this is the set of notion that believes that the longer a CEO stays in office the more he/she is likely to resort to empire-building with less focus on firm performance (Kyereboah-Coleman, 2007).

2.16 C.E.O Duality

The SEC`s corporate governance guideline recommend that the positions of CEO and the board chair should not be vested in the same person as this separation of the roles serves as "a mechanism of ensuring an appropriate balance of power, increasing accountability and enhancing the capacity of the board for independent decision making". It however discourages board members from serving on many other boards because it has the potential of interfering with the performance of the board members. Kyereboah-Coleman (2007) also suggest that it is expected that different persons occupy these positions because it help diminishes excessive influence on management and the board.

This notion supports the agency theory but contrary to this concept is the stewardship theory which argues that the positions of the CEO and the board chair should be vested in the same person. The wisdom behind this is that occupying the same position gives the CEO the chance to swiftly take decisions without the difficulty of too much bureaucracy.

2.17 Economic Value Added (EVA)

EVA is a metric which shows whether a firm is creating wealth for investors or destroying investors` wealth. It estimates the actual or real cost of capital, and that is the costs of both debt and equity. The EVA concept states that profit is created only when revenue exceeds the costs of doing business and the cost of capital. This makes managers take good capital structure decisions, that is making sure that optimum capital structure is employed by making the firm well levered (Stern & Steward, 1991, Durant, 1999; Chmelikova, 2008; Shil, 2009).

Shil (2009) defines EVA as "a value based performance measure that gives importance on value creation by the management for the owners". To him EVA "is the financial performance measure that comes closer than any other to capturing the true economic profit of an enterprise".

"Under generally accepted accounting principles, most companies appears to be profitable however many actually destroy shareholder wealth because they earn less than the full costs of capital and EVA overcomes this problem by explicitly recognizing that when capital is employed it must be paid for" (Durant, 1999).

When firms use the accounting principle for their analysis they normally do not pay for equity capital but they pay for debt and this make them appear profitable but in actual fact they are inefficient. What has to be known is that firms that use EVA as their financial performance measure focus on operating efficiency (Chmelikova, 2008; Popa, Mihailescu & Caragea, 2009). This operating efficiency can be achieved using three strategies;

1. Increase profit without increasing capital

2. Earn the same or more profit by using less capital,

3. and invest capital in high return projects (Tully, 1998).

O`Byrne & Stewart (1996) find that "a positive EVA is a sign of future EVA improvement because a growing company can create EVA improvement simply by maintaining its current rate of return. A negative EVA on the other hand reduces market value. Lower multiples of negative EVA imply that the market expects turnaround whether engineered internally or through some external corrective force".

Another indication is that a positive EVA shows that a firm has increased value to its shareholders and a negative EVA show that the firm has diminished shareholder value. The ability to account for the cost of equity makes EVA a comprehensive and precise measure for performance than the more popular metrics such as ROA and ROE (Popa, Mihailescu & Caragea, 2009).

In situations where returns are lower than expected for investments with similar risks, that is the returns is lower than the cost of capital, the EVA becomes negative and so investors move their funds to profitable investment and this drives down the stock price eventually affecting MVA (Stern Stewart & Co., 2000). Vijayakumar (2011) find in his study of all automobile companies in India that 53 to 76% of the companies registered negative EVA during the study period.

Firms can manipulate figures to appear profitable, as in the case of Enron scandal, when in actual fact they are not and EVA is capable of correcting this mischief by ensuring that managers pay for capital they employ. This is better stated by Peter Drucker (1998) as "until a business returns a profit that is greater than its cost of capital, it operates at a loss. Never mind that it pays taxes as if it had a genuine profit. The enterprise still returns less to the economy than it devours in resources until then it does not create wealth, it destroys it". The decision rule is that if EVA is positive then the firm has created wealth for shareholders and if it is negative then it has destroyed shareholder wealth (Stewart,1991).

Though EVA is an in-house measure of firm performance which affect Market Value Added (MVA) of a firm at the stock market level, Wet (2005) find that EVA did not show strong relationship with MVA, that is after studying the Johanesburg stock exchange (JSE).

2.18 Market Value Added (MVA)

MVA is a performance metric that measures firm performance at the stock market level. It is basically an external measure of performance that reflect internal performance.

Luber (1996) concludes that "a positive EVA over a period of time will also have an increasing MVA while negative EVA will bring down MVA as the market loses confidence of a company to ensure a handsome return on the invested capital. The behavior of the share prices at the stock market is determined by the performance of the firm and so using Tobin`s q, Brav et al (2008) conclude that the market reacts favorably to activism meaning it creates value.

All the authors who studied shareholder activism and its effect on the firm performance used ROA as a measure of performance at the firm level and Tobin`s q as a measure of performance at the stock market level and made their conclusions. None of the authors used other superior performance metric like EVA and MVA that is capable of establishing the actual performance of the firm and the effect shareholder activism has on the firm both at the firm level and the stock market level and this study aims to fill this gap.

CHAPTER THREE

THE NATURE OF SHAREHOLDER ACTIVISM IN GHANA

3.1 Introduction

This chapter presents the findings of the first objective of this study, thus the nature of shareholder activism. Also included here are the descriptive statistics of activism and the incidence of shareholder activism in Ghana.

3.2 The Nature of Shareholder Activism in Ghana

Activism takes a different form in Ghana. After interviewing some equity holders in Ghana, it emerged that activists in Ghana can be classified into institutional and individual investors. What actually happens is that institutional investors acquire stakes in firms with the intention of having board representation. The motive is to have control and influence policies relating to capital investment decisions. Normally these investors put pressure on management not publicly but through negotiations either at the board level or at management meetings.

Institutional investors in Ghana rarely take the Wall Street walk. As the head of equity of SSNIT puts it "exiting is not an option, we normally see to it that our objectives are achieved". Public announcement of activism only becomes an option when negotiations fail and some of the time firms in Ghana prefer that public agitation is avoided or activism is resolved quietly because of reputational issues.

Individual investors on the other hand acquire shares purposely for capital gains and to receive dividends but not for the purpose of seeking control. These are usually the minority shareholders who possess little power to influence management decisions.

Exiting is not a problem to them because there are no shareholder unions in Ghana unlike America where there is Shareholders Association (USA) and People`s Solidarity for Participatory Democracy (PSPD) in Korea. One form of activism they normally do is to take the Wall Street walk which has the potential of pushing down price which affect firm performance and it also damages the reputation of the managers and raises questions about their managerial competence. Generally, individual investors in Ghana can be described as passive investors because majority of them go to sleep after purchasing shares.

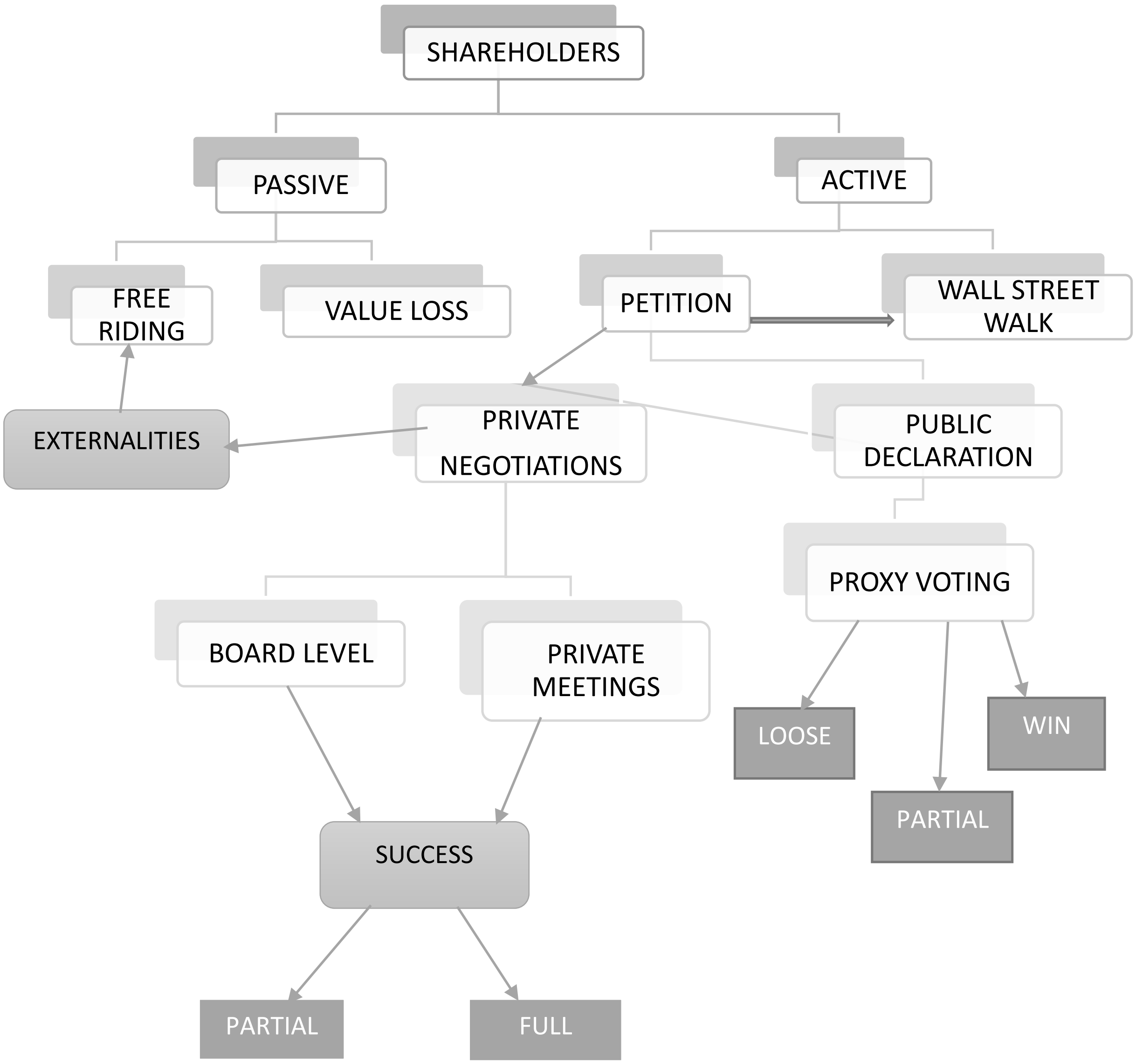
Notwithstanding this, a few of them are active shareholders and typically they are the ones with large stakes in the firm. These few active individual investors are the ones that occasionally engage in activism to demand some form of reforms. Because they are not directly represented on the board, unless they have a bigger stake, their form of activism is typically through petitions and public announcement of their displeasure. The situation in Ghana is such that these active individual investors rarely achieve full success where all their objectives are achieved. Generally, they achieve partial success, which is they achieve some of their demands. However their actions contribute greatly to improve corporate governance which later increases profit. For instance, a shareholder of UT bank demanded more female representation on the board in 2012 and they were increased to two female board members in the subsequent year.

3.3 Conceptual Framework

Below is a conceptual framework that depicts the nature of activism in Ghana

Figure 3.1

CONCEPTUAL FRAMEWORK



The framework above shows that shareholders can be classified into Passive and Active shareholders. Passive shareholders typically acquire shares and go to sleep. They lose value for not been active but they benefit from the positive externalities that emanate from the active shareholders (shareholder activists), thus they enjoy free riding.

Active shareholders on the other hand, use activism which involves using two tools to achieve their demands or objectives. One tool is the use of activism: private negotiation and or public announcement and the second tool is taking the Wall Street Walk.

The framework shows that activism is a sequential process as was found by Gantchev (2013). It usually begins with petitions, then to private negotiations either through private meetings or deliberations at the board level. If these petitions are not addressed, then these shareholder are likely to take the Wall Street Walk. Success can be achieved during private negotiations, which can either be full success, thus the activists achieve all their objectives or partial success which is that some of their objectives are achieved.

If consensus is not reached then the activists move on to the next option of public declaration which is more hostile. At this point their intentions are made public and Extraordinary General Meeting (EGM) is called. At the EGM, proxy voting is under taken and the outcome can be a win, a partial win or a loose. But whatever the outcome may be at the final stage, it effect on corporate governance is positive. Managers will either implement reforms immediately or implement reforms later. This is consistent with Gantchev (2013) who posit that “activism begins as a sequence of escalating decision steps, in which an activist chooses a more hostile tactic only after less confrontational approaches have failed”

3.4 Acquiring Stake

Acquiring shares in a firm in Ghana has its own dynamics and investors employ different strategies. Institutional investors are able to acquire majority shares during initial public offering (IPOs) which is easy for them but it becomes difficult to acquire when there is no IPO. The option left then is to mop up from individual investors. Mop up imply that shares are acquired bit by bit from individual shareholders. This is very difficult for institutional shareholders because of the bureaucratic nature of the procedure that is involved in writing memos and making a case regarding the viability of acquiring the shares.

The study find that by the time the memo is approved by management or the board, those shares might have been bought by another person because shares do not usually stay for long on the market unless it is not liquid. Due to this, mop up is difficult for institutional investors but very easy for individual investors. So in other to increase their stake, institutional investors typically look for another large shareholder who wants to dispose of their shares and acquire from them. Sometimes too they receive proposals for sale of shares from other shareholders.

Acquisition is done through the GSE if the firm is listed but if not then it is done through promoters after which a certificate is given. Acquisition of shares is accompanied by Shareholder Agreement (SA) which states the terms of having a stake. It includes what qualifies a shareholder to have board representation but the purchaser can negotiate for changes if he so desires. A majority shareholder is required to select a board representative to represent its interest at the board room.

3.5 Activism in the Board Room

Activism actually starts in the board room where issues, demands and displeasures are brought up and deliberated and debated and sometimes resolved. In situations where there are no amicable solution then it comes to the public domain usually through AGMs or through the media. An individual shareholder can also start activism by calling for specific reforms through letters or by making statement at the AGM.

3.6 Features of Activism

Activism can sometimes be difficult to detect as it mostly happen behind closed doors. Those that come to the public domain and catches media attention are very few because there are no activists unions in Ghana. Means of detecting the non-public ones are through minutes from AGMs and board room meetings. Another way of detecting the presence of activism is through the duration of the AGMs. AGMs in Ghana last for up to two hours. Therefore longer hours at the AGM (spikes) is an indication of some form of activism, it could be protestations from shareholders or disagreement on some proposals.

The opposite also shows the presence of activism. Which is a situation where the AGM is too brief, and this happens when the protestation is so intensive that the only way out is to end the meeting abruptly.

3.7 Investor Conference

Due to the possibility of these disruptions a few firms in Ghana (Ecobank and Tullow Oil) now resort to meeting investors before AGMs are organized. This is called investor conference (IC) where managers interact with shareholders to know their concerns and try to address them before the AGM because managers reputations get damaged when shareholders go public (Hill & Jones, 1992). This is an improvement on corporate governance and has been adopted after numerous agitations from shareholders. Investor conference is organized to enhance investor relation, which is enhancing managers and shareholders relationship. The managers use investor conference to listen to shareholders concerns and improve corporate governance and minimize shareholder activism. Good managers prefer to negotiate with shareholders and resolve issues than to allow shareholders to go public with their concerns because negative news in the media negatively affect the firm and the managers` reputations and raise questions about their competence hence managers try to avoid that from happening.

3.8 Incidence of Shareholder Activism among listed firms in Ghana.

Activism seems to be a new phenomenon in Ghana because its occurrence seems to be very low at the start this study (2007) and begun increasing till date as has been shown by figure 3.2 below.

3.2. The figure shows the aggregate occurrence among all listed firms.

Figure 3.2

Source: SEC, SSNIT, myjoyonline.com, citifmonline.com, B&FT.com, Google (2014)

The figure shows that only one (1) incidence of activism was recorded in 2007 which increased to 5, 6 and 8 in 2008, 2009 and 2010 respectively it then fell to 5 and 7 in 2011 and 2012 and then increased sharply to 14 cases in 2013. It depict that as activism started increasing in 2008, managers might have adhered to their demands and concerns and this helped brought it down to 5 cases in 2011. However, it seems shareholders are becoming more aware of their rights causing it to sharply rise to 14 cases in 2013.

This could be influenced by the SEC`s corporate governance guidelines that urges investors to be active in monitoring their firms to help in the building of strong corporate governance system in Ghana.

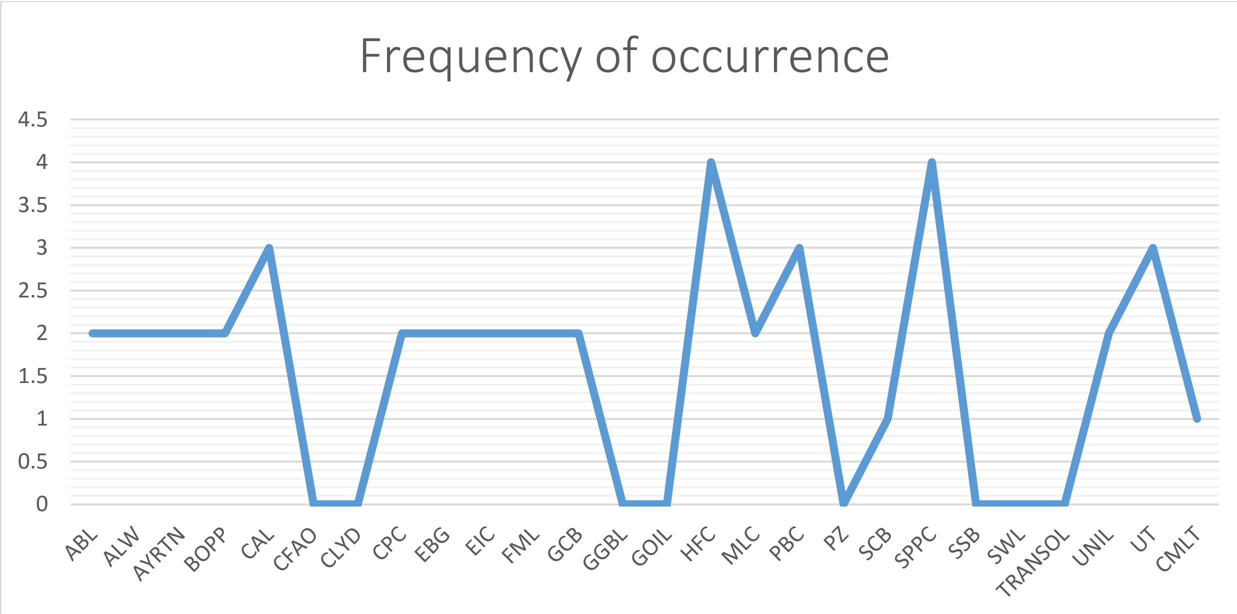
Table 3.3 SOME SELECTED CASES OF INCIDENCE OF SHAREHOLDER ACTIVISM

Targeted firm	Year	Issues	Activism type
Cal Bank	2007	Shareholders demanded more dividends but management said no.	Hostile
Cal Bank	2008	Three major shareholders blocked a resolution by Cal bank to raise additional capital of Gh₵ 200 million on fears that their shares will be diluted.	Hostile
Eco Bank Gh.	2013	Shareholders of Eco Bank Ghana (EBG) question why the bank is experiencing soaring non-performing loans.	Non hostile
Fan Milk Ltd	2013	Shareholders of Fan Milk Limited (FML) resist mandatory acquisition of their shares	Hostile
HFC Bank	2013	Shareholders of HFC bank demand changes in the composition of the board of directors	Hostile
PBC Ltd	2009	Shareholders of Produce Buying Company (PBC) disagree and split over the spin-off of shea butter company with new management.	Non hostile
PBC Ltd	2013	The shareholders want expenditure on corporate social responsibility (CSR) reduced or matched to performance since the company was not performing well yet CSR was increasing	Non hostile
UT Bank	2009	UT bank forced to buy back its shares from dissatisfied shareholders who were disposing off their shares	Wall Street Walk
UT Bank	2012	A female shareholder of UT bank demanded affirmative action; she demanded more women representation on the board of directors. Female representation was increase from 1 to 2 in the subsequent year	Non hostile
BOPP	2011	Unilever Ltd (UNIL) took the Wall Street walk by selling off its share in Benso Oil Palm Plantation (BOPP) about 58.45% to Wilmar Africa	Wall Street Walk

ALUWORKS	2012	Shareholders of ALUWORKS (ALW) expressed dissatisfaction for not receiving dividends and demanded explanation from the board of directors.	Non hostile
Standard Chartered Bank (SCB)	2012	Shareholders of Standard Chartered Bank (SCB) unhappy with dividend declared and insists that they deserve better due to the sterling performance of the bank.	Non hostile
Standard Chartered Bank	2013	The shareholders were agitated because non-performing loans had increased from 1% to 16% and auditor's remuneration had been increased by 123%.	Non hostile
Ghana Commercial Bank (GCB)	2009	Shareholders of Ghana Commercial Bank (GCB) demand action. They are worried about the level of indebtedness of Tema Oil Refinery (TOR) to GCB	Non hostile
GCB	2013	Shareholders of Ghana Commercial Bank (GCB) demand action. They are worried about the level of indebtedness of Tema Oil Refinery (TOR) to GCB	Non hostile
Mechanical Lyod (MLC)	2011	Shareholders of Mechanical Lyod Co. (MLC) expressed dissatisfaction over dividend per share declared by the company. They called for more effort from management to increase dividend in subsequent years. They ask management to cut down costs.	Non hostile
Unilever Ghana Ltd	2013	Some shareholders of Unilever (UNIL) were unhappy with the performance indicators, for instance net cash generating from operating activities had gone down and distributing expenses grew by 86% so they concluded that management were not doing enough.	Non hostile

Source: Field Work, 2015

Figure 3.4: Incidence of activism at the individual firm level



Source: SEC, SSNIT, myjoyonline.com, citifmonline.com, B&FT.com, Google (2014)

Figure 3.4 depicts the frequency of occurrence of activism for individual firms for the entire period of study, which is from 2007 to 2013. Within this 7 year period, CFAO Ghana Ltd (CFAO), Clydestone Ltd (CLYD), Guinness Ghana Brewery Ltd (GGBL), Ghana Oil Company Ltd (GOIL), PZ Cussons Ghana Ltd (PZ), Social Security Bank (SSB), Sam Woode Ltd (SWL), and Transactions Solutions Ghana Ltd (TRANSOL) all experienced no incidence of activism. Standard Chartered Bank (SCB) experienced it once. Other firms like Accra Brewery Ltd (ABL), Aluworks Ltd (ALW), Ayrton Drug Manufacturing Ltd (AYRTN), Benso Oil Palm Plantations (BOPP), Cocoa Processing Company (CPC), Ecobank Ghana (EBG), Enterprise Insurance Company (EIC), Fan Milk Ltd (FML), Ghana Commercial Bank (GCB), Mechanical Lyoyd Company (MLC) and Unilever Ghana Ltd (UNIL) all experienced it only twice.

Also Cal Bank (CAL), Produce Buying Company (PBC) and Unique Trust Bank (UT) experienced it three times and finally HFC Bank (HFC) and Super Paper Product Company (SPPC) recorded the highest incidence of activism in Ghana, four (4) times each, from 2007 to 2013.

This could mean that HFC bank and SPPC have poor corporate governance system or that they underperform compared to their peers. A look at their economic value added (EVA) show that HFC recorded negative EVA throughout the entire 7 period of this study though it's ROA showed a few positives. SPPC also recorded negative EVA up to the 6th year but recorded positive EVA only at the 7th year. This is consistent with Durant (1999) who posits that when using the accounting measure of performance, firms appear to be profitable but in actual fact they are not when performance is measured using EVA. It is also consistent with the finding of Helwege, Intintoli, & Zhang (2012) who state that activists target firms that underperform or have weak corporate governance system. Firms like CAL, PBC and PBC could have experienced some level of activism because of weak corporate governance system but not necessarily because of underperformance in terms of profitability because their EVA and ROA showed many positives.

3.9 The Presence of *Sokaiya* or *Disturbatori* in Ghana

Sokaiya or Disturbatoris can be described as deceptive shareholders who disrupt good corporate governance system. In Ghana, a careful study of minutes from AGMs provided by SEC show the presence of *sokaiya/Disturbatoris*. However, unlike the form in Japan, *sokaiya/Disturbatoris* in Ghana is practiced by a few individual investors who do not form groups. These few *Disturbatoris* (bad investors) manage to acquire small shares in several firms and use that to get access to their AGMs and launch their attacks or in most cases they resort to giving excessive praises to management just to create the impression that management was doing very well and that they should keep up the good work. The minutes obtained from SEC show cases where certain individuals whose names run through the various minutes from firm to firm with almost the same approach: thus showering praises on management when other shareholders were complaining or were dissatisfied that management had done very little to better their fortunes. They do this by gaining priorities to speak and by doing so deny or suppress the genuine shareholder activists from having access to the platform to make their demands. This act is inimical to good corporate governance system in Ghana.

CHAPTER FOUR

METHODOLOGY

4.1 Introduction

In order to find the impact of shareholder activism (activism) on shareholder value in Ghana, two performance measures, that is, Economic Value Added (E.V.A) and Market Value Added (M.V.A) methods are estimated. The study applied panel data technique to analyze the data. For using panel regression, the Hausman test was used to determine whether fixed or random effect was appropriate to be used. The test selected random effect for both the E.V.A and the M.V.A.

4.2 Population and Sample of the Study

The study population is all the listed firms in Ghana for the study period (2007 to 2013) because of availability of data and also for the reason that previous studies show that activism can create value and be an effective monitoring of publicly listed firms (Roman, 2013). There were 35 listed firms in Ghana as at May, 2015 and 5 delisted firms (GSE, 2015). Out of this population, 27 firms had data available for this study, which constituted the sample for the study.

4.3 Sources of data

Data for measuring the dependent and the independent variable are obtained from the annual reports of the listed firms made available by GSE and Annual reports Ghana website. Specifically the data is obtained from the income statement and the consolidated statement of financial position. Share prices were obtained from the Ghana Stock Exchange (GSE).

Corporate tax rate was obtained from the Ghana Revenue Authority (GRA).

The study employed both descriptive and quantitative analysis. It also used charts and tables to aid in the description of some of the variables.

Both primary and secondary data were collected and Multiple Regression analysis was run to ascertain firm performance (Gantchev, 2013). The primary data were collected directly from investment officers and market analysts from SEC, SSNIT and SIC for the independent variable, ACT (activism). The secondary data were obtained from the annual reports of the listed firms for our estimation, made available by the Ghana Stock Exchange (GSE).

4.4 Model Specification

This study seeks to empirical find whether activism has any effect on firm performance. Since the effect of activism on firm performance will be influenced by both time and firm specific effect, hence this study adopts panel analytical method to accomplish the set objective.

Using panel data estimation is known to produce good results when the objective is to find relationship over time and across firms because it has the dimensions of both time series and cross-sections (Brooks, 2008).

The general form of the panel data model according to Brooks (2008) can be specified compactly as:

$Y_{it} = \alpha + \beta X_{it} + \varepsilon_{it}$……………………….. (1)

Where: subscript i denotes the cross sectional dimension (firm) i = 1……..N and t denotes the time series dimension (time) t = 1………T;

Y_{it} is the dependent variable.

α is the intercept term for all periods (t) and specific to a firm specific effect (i),

β is a k x 1 vector of parameters to be estimated on the independent variables.

X_{it} is a 1 x k vector of observations on the independent variables in the model which include the control variables.

ε_{it} is the error term.

To investigate whether activism has any effect on firm`s profitability and market value, the two models below are estimated;

$$EVA_{it} = \alpha_1 ACT_{it} + \alpha_2 BODS_{it} + \alpha_3 CEOT_{it} + \alpha_4 CEOD_{it} + \sum_{i=5}^{8} \varphi_i Controls_{it} + \lambda_t + \mu_i + \varepsilon_{it} \dots\dots\dots\dots\dots\dots.(2)$$

$$MVA_{it} = \beta_1 ACT_{it} + \beta_2 BODS_{it} + \beta_3 CEOT_{it} + \beta_4 CEOD_{it} + \sum_{i=5}^{8} \gamma_i Controls_{it} + \lambda_t + \mu_i + \varepsilon_{it} \dots\dots\dots\dots\dots\dots.(3)$$

EVA_{it} in model (2) is the dependent variable; it represent Economic Value Added of firm i in year t.

MVA_{it} in model (3) is the dependent variable; it represent Market Value Added of firm i in year t.

λ_t is a proxy for control for time specific effect,

μ_i is a proxy for cross sectional heterogeneity.

$\alpha_{1,} \alpha_{2,} \alpha_{3,} \alpha_4$ and φ_i represent coefficient estimators in model (2) and

$\beta_{1,} \beta_{2,} \beta_{3,} \beta_4$ and γ_i represent coefficient estimators in model (3) and

ε_{it} is an error term with zero mean and constant variance.

i represent each firm and t represent time.

4.5 Variable Selection and Justification

4.5.1 Dependent Variables

4.5.1.1 EVA and MVA

Firm performance is a very vital issue that all stakeholders always try to measure. The value of the firm is continually measured base on its performance and the performance of the managers is estimated base on the value of the firm. Until recently, firm performance has always been measured using the traditional accounting measure, Return on Asset (ROA). All the previous studies that looked at the effect of activism on firm performance, used ROA, (see Gantchev, 2013; Roman, 2013; Kandel, Massa & Simonov, 2011; Bechk et al, 2009; Brav et al, 2008; Strickland et al, 1996) but Stern Stewart & Co. (1996) found that ROA does not reflect the real financial position of the firm because it does not capture the cost of equity.

They posit that the best measure of a firm`s performance is to use Economic Value Added (EVA) which is a value based performance metric. Hence, this study adopts EVA as a performance measure to estimate the performance of a firm after an incidence of activism. Stern Stewart & Co. (1996) and Stern Stewart & Co. (2000) postulated that EVA measures is an internal performance measure that measures performance at the firm level whilst Market Value Added (MVA) is an external performance measure that measures performance at the stock market level. Therefore, this study adopts both EVA and MVA as performance measure to estimate the effect of activism on firm performance. Both EVA and MVA are used as dependent variables.

4.5.2 Measuring Dependent Variables

4.5.2.1 Economic Value Added (EVA)

The performance of a firm is measured by the extent to which it is able to create value in excess of the required return of the firm`s investors, that is both the shareholders and the debt holders. Therefore the best measure is the Economic Value Added (E.V.A) by Stern Stewart & Co. (2000). Economic Value Added (E.V.A) is an estimate of a firm`s economic profit which is calculated as net operating profit after tax less invested capital multiplied by the weighted average cost of capital.

The methodology for calculating EVA is specified as follows: It is adopted from Stern Stewart & Co. (2000), Shil & Dhaka (2009) and Vijayakumar (2011).

EVA = NOPAT – [(TA-CL) × WACC] ……………………………….. (4)

NOPAT denote net operating profit after tax, thus NOPAT = Earnings before interests and taxes (EBIT) – Corporate Tax

NOPAT=EBIT-Corporate Tax ……………………………………… (5)

(TA-CL) ……………………………………………………….. (6)

Equation (6) represent capital employed, thus total asset minus current liability.

TA = total asset, CL = current liability, and WACC = weighted average cost of capital and it include both the cost of debt and equity finance.

WACC is defined as;

WACC $=[(r_E \times \frac{E}{V})] + [(r_D \times \frac{D}{V})(1 - T_c)] \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots . \ldots (7)$

Where $r_{D=} cost\ of\ debt, D = total\ debt,$

T_c= corporate tax rate, r_E = cost of equity, E = total equity, V = D + E.

Cost of debt is obtained using the Bank of Ghana (BoG) Policy rate from 2007 to 2013 to represent cost of debt for banks because they borrow from the BoG at that rate whilst the Treasury bill rate from 2007 to 2013 is used to represent the cost of debt for the other firms because they borrow from the these banks not below this rate.

Cost of equity is computed using the Capital Asset Pricing Model (CAPM).

r_E = rf + β(rm – rf) ……………………………………………(8)

r_E= cost of equity for each firm

rf = risk free rate, is the one year Treasury bill rate, it is obtained from the BoG website.

rm = GSE annual returns from 2007 to 2013, obtained from the annual Ghana website.

β = beta, measures the sensitivity of a stock`s return to market returns.

Beta is computed using Data Regression method. Annual Percentage changes of the GSE composite index is computed for the period of study. Annual percentage changes of the firms` stock returns are also computed. These percentage changes of the stocks are then regressed on the percentage changes of the GSE composite index.

The betas obtained are then substituted into r_E = rf + β(rm – rf) to attain cost of equity for each firm for the entire seven year period of this study.

When substituted into equation (8), we obtain the cost of equity for each firm, for each year.

The previous studies used ROA as a measure for firm performance. But ROA does not entirely reflect shareholder value because it does not consider the opportunity cost of capital and thus can lead to misallocation of resources (Vijayakumar, 2011).

The decision rule is that value is added when EVA is positive and value is destroyed when EVA is negative.

4.5.2.2 Market Value Added (MVA)

Market Value Added is a measure of firm performance at the stock market. This is usually a reflection of the firm in the eyes of the investors who hold equity stake in the firm. The value of the firm from the outside is dependent on the firm`s internal performance which is best measured using EVA.

It is estimated as stated below;

M V A = MVE – BVE ………………………….(9).

Where MVE is the market value of equity and BVE is the book value of equity, which is the capital invested.

MVA= (Number of common shares outstanding × share price) + (Number of preferred shares outstanding × share price) – book value of equity.

In order to capture variations in share prices within a particular year, I calculated the average share price for each firm and used that to proxy for the share price of a firm for a particular year.

The decision rule is that Value is added when MVA is positive and value is diminished when MVA is negative.

4.5.3 Independent variables

4.5.3.1 Activism (ACT)

The following methodology was used to capture incidence of activism in Ghana.

The first was that, minutes from AGMs were collected from the Securities and Exchange Commission (SEC). The SEC attends all AGMs of all listed firms and they take minutes. The minutes clearly explain what happened at the AGMs especially what happened between the shareholders and the management. Particularly of interest to this study was to look for issues that constitute activism like shareholder demands, agitations and expression of dissatisfaction etc.

These issues put pressure on management to do better or take some decisions that hitherto were not among the agenda for implementation and can also lead to some shareholders taking the Wall Street walk. Minutes for each firm, for each year were reviewed and any incidence of activism was recorded.

The second method used was that a thorough search was done on the internet using Google to identify any incidence of activism about any listed firm. The strategy used was that the phrase "shareholders of" plus the name of the firm is googled and the results are screened.

This is done for all the firms to detect all reported cases of the various firms during the period of study. Another search was done on the most reliable websites in the country including the websites of Joy FM, Citi FM, Ghana News Agency, Ghana Web, Business and Financial Times, Daily Graphic News Paper and Annual Reports Ghana.

The third method that was used was personal interview with some investment officers and the head of equity at SSNIT and also the head of corporate planning at State Insurance Company (SIC).

ACT_{it} is a dummy variable and a proxy for shareholder activism of firm i in year t, which takes the value of one when a firm experienced activism and zero otherwise.

It has been established that activism has effect on firm performance but as to whether the effect is positive or negative, attracts divergent opinions. Kandel, Massa & Simonov, 2011; Brav et al, 2008; Strickland et al,1996 found that activism has a positive effect on firm performance whereas Choi & Cho, 2003; Karpoff, 2001;Black, 1998; and Gillan & Starks, 1998 found that activism has no effect on firm performance. Therefore, every firm performance measure has to include in it estimation, a variable that captures an incidence of activism. This study adopts the estimation technique used by Brav, Jiang, Partnoy, & Thomas (2008), thus measuring activism as a dummy variable.

4.5.3.2 Board Size (BODS)

$BODS_{it}$ is a proxy for board size which represent the number of board members on a firm`s board of directors. It is measured as the log of number of board members for firm i at time t (Abor, 2007; He & Sommer, 2006). Both the number and its square are used. Extant literature show that board size, as a corporate governance variable, has a positive effect on firm performance, hence, it is included in this study (Kyereboah-Coleman, 2007; Adam & Mehran, 2010).

4.5.3.3 CEO Tenure

$CEOT_{it}$ is a proxy for CEO tenure which is the number of years a CEO stays in office. It is measured as the log of number of years a CEO stays in office (Abor, 2007).

Information on CEO tenure was obtained from the annual reports of the various firms made available by GSE. CEO tenure is a corporate governance variable that affect firm performance and base on the findings of Kyereboah-Coleman (2007), it is expected to enhance firm performance or have negative effect on firm performance. This is because, experience enhance knowledge and knowledge increase efficiency, but the CEO can also resort to empire building.

4.5.3.4 CEO Duality

$CEOD_{it}$ is a proxy for CEO duality which is a dummy which takes the value of one when the CEO is also the board chairman and zero otherwise. The SEC recommend that the position of CEO and the board chair should not be vested in the same person because the separation of the roles serves a mechanism for ensuring that there is balance of power, increasing accountability and enhancing the capacity of the board for independent decision making. It also diminishes excessive influence on management and the board.

Contrary to this concept is the stewardship theory which argues that the two positions should be vested in the same person, because occupying the two positions by the same person gives the CEO the chance to swiftly take decisions without the difficulty of too much bureaucracy. It is therefore expected to have either negative or positive relationship with firm performance (Kyereboah-Coleman, 2007).

These are corporate governance variables which have been proven to have effect on firm performance.

Controls_{it} is a vector of control variables of firm i in year t.

4.5.4 Measuring Independent Variables

The main independent variables are ACT a proxy for shareholder activism, it is a dummy variable which is equal to one if the observation is a firm that experienced activism during a particular year and zero otherwise (Brav et al, 2008) and corporate governance variables such as board size (BODS), CEO duality (CEOD), and CEO`s tenure (CEOT) (Kyereboah-Coleman, 2007).

BODS represent the number of board members, both the number and the log are used (He & Sommer, 2006).

CEOT represent chief executive officer`s tenure, which is the number of years a CEO stays in office. The log of it is taken (Abor, 2007)

CEOD represent CEO duality, it is a dummy variable (Abor, 2007), which has the value of one when the CEO is also the board chairman and zero otherwise.

4.5.5 Control Variables

4.5.5.1 Firm Size

Firm-Size; it is measured as the log of total asset (He & Sommer, 2006; Abor, 2007). It is expected to have a positive or negative relationship. Firm size can has a positive relationship with performance if there is good corporate governance system in place and the firm invest in only positive NPV projects and operate efficiently. However, it can also have a negative relation if the CEO instead of investing in positive NPV projects, rather pursues empire building objective and also when there is bad corporate governance system.

4.5.5.2 Firm Age

Firm-Age; age in years (He & Sommer, 2006), it is measured as the log of years a firm has been in business. It is expected to have a positive or negative relationship with profitability (EVA). It can have a positive relationship with performance if it is able to generate wide acceptance of its products, and also because it is supposed to have acquired experience and had specialized in its area of operation. It has a negative relationship with performance when its products are at it maturity stage of the product life cycle, and has started declining.

4.5.5.3 Overheads Costs

Overheads-Costs; it is measured as the ratio of overheads expenses to total asset. It is expected to have negative or positive relationship with profitability (EVA). This is because, if firms incur more costs, it ought to reduce their profitability but if they are able to pass it on to consumers, then, it will have a positive relation with profitability.

4.5.5.4 Firm Risks

Firm-Risk; it is measured as the standard deviation of return on asset (ROA). Thus, the standard deviation of ROA for each firm for the seven year period of the study. It is expected to have positive relationship with performance. It follows the risks return relationship, thus the higher the risks, the higher the returns.

4.6 Performance Measures

4.6.1 Economic Value Added (E.V.A)

E.V.A denotes the economic profits made by a firm above and beyond the minimum return required by all suppliers of capital. Value is therefore added when the total net economic cash flow of the firm exceeds the economic costs of all the capital employed to produce the operating profit.

4.6.2 Market Value Added (M.V.A)

Market Value Added (M.V.A) is defined as the wealth generated by a company for its shareholders at the stock market. M.V.A measures performance at the stock market level. So as performance is measured at the firm level (E.V.A), it is also measured at the stock market level (M.V.A).

4.7 Research Limitations

The study is restricted to listed firms and there could be some firms that are not listed at the stock exchange but it may experience activism which will not be captured. Also the study looked at an incidence of activism but not the frequency it occur.

4.8 ESTIMATION TECHNIQUES

One approach that can be used to accomplish the objective of this study could have been to use Seemingly Unrelated Regression (SUR) by Zellner (1962) since this study is modelling several related variables over time. But according to Brooks (2008), SUR can only be employed when the number of time series observations per cross-sectional unit is at least as large as the total number of units, N, which is not the case in this study. Therefore the study uses the more commonly used panel data approach. There are two of these panel techniques which are fixed effects estimator and random effects estimator. Panel data techniques is better for this study because it will help us to examine the relationship between the variables and how they change dynamically (over time).

The Hausman test is conducted to determine whether fixed or random effect estimator is appropriate for each of the model. The results are explain in chapter 5 and shown in appendices 5.0 and 6.0. The estimation is done using stata 13 software which is known to be the ideal software for panel data estimation.

To ensure robust coefficients, the study used Breusch and Pagan Lagrangian multiplier test to detect heteroscedasticity and used the Wooldridge test for autocorrelation in panel data to test for autocorrelation. It then used the Prais-Winsten regression to correct them.

CHAPTER FIVE

REGRESSION RESULTS AND DISCUSSIONS OF FINDINGS

5.1 Introduction

This aspect of the study discusses the regression results of shareholder activism (activism) in Ghana, and the effect of activism on firm performance of listed firms of the Ghana Stock Exchange (GSE). Thus the relationship between activism and some firm performance measurements which are Economic Value Added (EVA) and Market Value Added (MVA) are presented and analyzed. The chapter basically presents the empirical findings of the econometric models estimated

5.2: Data Presentation and Analysis

At this stage of the study the descriptive statistics and correlation of the variables used are analyzed.

Table 5.1: Descriptive Statistics of dependent and independent variables.

Variable	Mean	Std dev	Minimum	Maximum
EVA	3.4739722	0.349856	0.14	10.76
MVA	17.95459	2.04842	12.1115	22.62815
ROA	0.0805172	0.1659419	-0.71	0.66
ACT	0.2386364	0.4274661	0	1
BODSIZE	8.045455	2.203421	3	13
CEOT	2.943182	1.712862	1	7
CEOD	0.0733333	0.2615562	0	1
FIRMAGE	36.02841	21.79998	5	104
OVERHEADSCOSTS	0.1618129	0.3160709	-0.17	3.58
FIRMRISK	0.1485227	0. .3785024	0.01	2.54
FIRMSIZE	18.16667	2.274201	12.54	22.25

Source: Annual reports collected from GSE (2007-2013), Minutes from SEC.

Table 5.1 shows the summary of the descriptive statistics which comprises of the mean, minimum, maximum, and standard deviation of the variables used in the study.

Economic Value Added (EVA) has a mean value of 3.473972 suggesting that on the average, firm performance/value increases by 3.473972 units, minimum value added of 0.14 units and a maximum value added of 10.76 units.

Activism has a mean of 0.23863664 indicating that on the average, activism increase firm value by 24% during the period of study.

The descriptive statistics also show that on average activism increase ROA by 8%.

Board size has a mean of 8.045455, a minimum of 3 and a maximum of 13 indicating that the average board size is 8, a minimum board size of 3 and a maximum board size of 13 during the year of study. It also show that CEOs who doubles as board chairs represent only 7%, indicating that many firms in Ghana do not have their CEOs doubling as the board chairman.

The Shapiro-Wilk (SW) Test was used to check the distribution of the variables around their mean. From the SW test in (Appendix 4.0), the variables were all normally distributed around their mean.

Table 5.2: Correlation Matrix of the independent variables.

	act	bodsize	ceot	ceod	firmage	overheads	firmrisk	firmsize
ACT	1.0000							
LOGBODSIZE	0.0019	1.0000						
CEOT	0.1981	-0.0711	1.0000					
CEOD	-0.1610	-0.1662	0.0877	1.0000				
LOGFIRMAGE	0.0093	0.0016	0.0834	0.1614	1.0000			
OVERHEADS	-0.0468	0.0810	-0.1224	0.2417	0.0767	1.0000		
FIRMRISK	-0.1069	-0.2705	0.0377	0.1609	-0.2304	0.1032	1.0000	
FIRMSIZE	0.1228	0.5270	0.1474	-0.4671	-0.1887	-0.3560	-0.4067	1.0000

Source: Annual reports collected from GSE (2007-2013), Minutes from SEC.

The table 5.2 above presents the correlation matrix for the variables that explains firm performance as found in extant literature.

The coefficient of correlation gives a guide of the direction and the degree of the relationship between two set of variables without denoting causality. The sign on the coefficient is an indication of the direction of the relationship. The absolute value of the coefficient indicates the magnitude. Correlation matrix is suitable to the extent that it tells whether there are elements of multicollinearity in the data. Multicollinearity is the situation when some or all of the independent variables are highly related making it difficult to tell which of them is influencing the dependent variable. The severity of multicollinearity would be manifested in a condition where all p-values of regression coefficients are insignificant but overall model having significant F statistic. The study sets a threshold of 0.7 (Kennedy, 2008) of the Pearson's correlation to be considered as the existence of high collinearity between a variable and other variables.

The Table 5.2 show that none of the variables used in the firm performance measure models are multicollinear as Zhu et al, (2007), Wu (2007) and Smith et al. (2009) posits that variables with variance inflation factor (vif) more than 10 should not be included in an empirical model. They further opine that where vif of pairs of variables are above 10 then the variable with the highest vif in the pair must be dropped in order to solve the problem of multicollinearity.

The study finds no variable with variance inflation factor above 10, therefore no variable is dropped (Appendix 1.0).

5.3 Empirical Results

The study used Generalized Least Squares (GLS) to estimate the coefficients of the EVA and MVA. For using GLS there was the need to determine whether Fixed or Random effect should be used therefore the Hausman test was conducted and the result showed that Random effect was the appropriate for estimating both EVA and MVA. The results are in appendices 5.0, 6.0 respectively.

In using the GLS approach, and the Hausman test, the null hypothesis states that the preferred model is random effect and the alternative hypothesis support the fixed effect model. As indicated by the Hausman test in appendix 5.0, under the EVA model (Chi2= 6.05 with a Prob>Chi2 = 0.5335), this shows that we fail to reject the null hypothesis and settle for random effect. Therefore, the random effect model is selected for the EVA model.

Further analysis was conducted to ensure robust coefficients. From the Random Effect Regression Model, the Breusch and Pagan Lagrangian multiplier test for random effects was conducted to detect heteroskedasticity. These test has a null hypothesis of constant variance, therefore the result (chibar2 (01) = 38.01 with Prob> chibar2 = 0.0000) indicating a rejection of the null hypothesis and concluding that the model is heteroskedastic (appendix 2.0 and 3.0).

Using the Wooldridge test for autocorrelation in panel data, it was detected that there was no autocorrelation in model 1 (EVA) but there was autocorrelation in model 2 (MVA) (see appendix 8) therefore the presence of heteroskedasticity and autocorrelation have been corrected using Prais-Winsten regression as shown in figure 5.3 and 5.4.

5.4: Economic Value Added (EVA)

The main performance measure that is of interest to this study is EVA which has been proven to be a better performance measure (Stern, Stewart & Co., 1991) and so if its regression result actually shows improvement in firm value influenced by activism then it can be concluded that certainly activism improves firm performance.

Table 5.3: Regression Results on Economic Value Added (EVA).

EVA	Coefficient	Standard Error	Z	P-value
ACT	0.8519194	0.385854	2.21	0.027**
BOD SIZE	2.286093	1.085356	2.11	0.035**
CEOT	-0.1579169	0.1396179	-1.13	0.258
CEOD	1.645798	1.623698	1.01	0.311
FIRM AGE	-0.7454808	0.3410668	-2.19	0.029**
OVERHEADS COSTS	-0.8085928	0.7522804	-1.07	0.282
FIRM RISK	5.282442	5.729171	0.92	0.357
FIRM SIZE	0.0678833	0.1231384	0.55	0.581
R-squared	0.6223			
Wald chi2	146.48			
Prob>chi2	0.0000			
Number of obs	119			
Number of groups	24			

Significance Level: 1%(***), 5%(**) and 10%(*)

The study used the Hausman test to determine whether to adopt random or fixed effect and settled on random effect after obtaining Prob>chi2 = 0.5335. The dependent variable is the Economic Value Added (EVA) which is a performance measure which is measured as the net operating profit after tax less the capital employed multiplied by the weighted average cost of capital.

This dependent variable is explained by incidence of activism (ACT) which is a dummy variable which takes the value of one when a firm experience activism and zero otherwise, number of board members (logbodsize), number of years a CEO has been in office (CEOT), and whether the CEO doubles as the board chairman (CEOD).

The regression result show that activism has a positive nexus with EVA (profitability) and is statistically significant at 5%. Denoting that incidence of activism pressures management to take the right investment decisions and adhere to good corporate governance principles which eventually improves firm performance proxied by (EVA). This finding is consistent with the findings of Strickland et al, 1996; Brav et al, 2008; Kandel et al, 2011; and Roman, 2013 who also find that activism improves firm performance. But this result is contrary to the findings of Choi & Cho (2003) who did not find a positive association between activism and firm performance.

The implication is that investors should be active and monitor managers because activism improves their wealth. Managers must also pay attention to shareholders concerns as it improves firm performance and this explains why some firms organize investor conference for their shareholders so as to address their concerns before they go for their annual general meetings (AGM). This affords them more time to address shareholders concerns and try to incorporate them in their plans, objectives and policies.

Board size also has a positive nexus with firm performance and it is significant at 5% denoting that large board size increase firm performance as the members, coming from diverse backgrounds will bring their expertise together and take optimum investment decisions which will improve firm performance. It is also difficult for all of them to be loyal to the CEO and so they are more likely to critically scrutinize investment options before approving them.

This is consistent with the findings of Kyereboah-Coleman (2007) and Adams & Mehran (2010) but contrary to the findings of Eyenubo (2013) who found a negative relation between bigger board size and firm performance.

Firm age has an inverse relation with EVA and is statistically significant at 5%.Which imply that as firms grow older they tend to be less profitable.

This is because their investment opportunities might be diminishing or using the product life cycle, their products might have reached its maturity and started declining or it could be that they generate excess capital and waste it through overinvestment. This is consistent with the findings of Stern, Stewart & Co. (2000).

The result shows that activism actually improves firm performance, it increases the economic value that is added to their investment and so shareholders should be active monitors of managers to improve their wealth.

5.5 Market Value Added (MVA)

The market value added (MVA) measures how much value has been added to the stock value of the firm at the stock market. This value added can be influenced by incidence of activism as the stock market thrives on information. Here the dependent variable is changed from EVA to MVA and the independent variables are maintained so as to observe how the interaction will be.

Table 5.4: Regression results on Market Value Added (MVA)

MVA	Coefficient	Standard Error	Z	P-value
ACT	-0.1551878	0.3084282	-0.50	0.615
BOD SIZE	0.3305175	0.6257941	0.53	0.597
CEOT	-0.2260936	0.1212061	-1.87	0.062*
CEOD	-1.901132	1.397597	-1.36	0.174
FIRM AGE	1.036696	0.5633267	1.84	0.066*
OVERHEADS COSTS	0.8201274	0.2187787	0.75	0.000***
FIRM RISK	7.0478	3.668795	1.92	0.055*
FIRM SIZE	0.7322723	0.1346493	5.44	0.000***
R-squared	0.9795			
Wald chi2	12956.77			
Prob>chi2	0.0000			
Number of obs	112			
Number of groups	26			

Significance Level: 1%(***), 5%(**) and 10%(*)

After changing the dependent variable to MVA which enabled performance measurement to be done at the stock market level the result is as depicted in table 5.4. The dependent variable is the (MVA) which measures firm performance at the stock market level. As firms improve value at the firm level this is reflected in their stock prices at the stock market and one way to measure this is to use the MVA which is an external performance measure.

The regression result above indicate that activism (ACT), an explanatory variable, has an inverse nexus with firm performance at the stock market but statistically insignificant. This could be because the stock market in Ghana is not informational efficient.

But it denote that when there is incidence of activism against a firm, stock traders dispose of their shares thus pushing down the stock price which reduces the firm value. This is consistent with Gillan & Starks (2000) who find that activism has negative impact on stock prices.

CEO tenure is inversely related to MVA and statistically significant at 10%. Denoting that as CEOs stay in office for longer period they tend to focus less on value creation and possibly focus on empire building and stock holders respond to it. This is consistent with the findings of Abor, 2007.

Firm age is positively related to MVA and statistically significant at 10%. Denoting that as firms mature they win investors` trust and they buy and hold more of their shares which improves their share prices

Overheads costs is positively related to MVA and statistically significant at 1%. Denoting that as operating expenses increase, output also increases thereby increasing profitability but only if the firm is able to transfer the overheads costs to consumers.

Firm risks is positively related and statistically significant at 10%. Denoting that the higher the risk the higher the returns. Thus as firms take more risks they tend to generate more income and make more profit.

CEO duality has a positive nexus with EVA (consistent with the stewardship theory) but a negative relation with MVA however it is not significant in both cases. This is consistent with the findings of Kyereboah-Coleman, 2007. Denoting that CEO duality improves firm performance when the firm is small because it helps speed up decision making but does not improve performance when the firm is large and listed because the CEO will be able to push through with some unprofitable investments which inhibit growth.

Firm size is positively related to MVA and is statistically significant at 1%. Denoting that large firms are more profitable because they are better able to take advantage of economies of scale. They are also able to invest in multiple products that generate multiple income and implement efficient supply chain management system that eliminate waste, leverage global sourcing and enhance competitive advantage.

CHAPTER SIX

FINDINGS, IMPLICATIONS AND CONCLUSION

6.1 Introduction

The summary and conclusion of the entire study is presented in this chapter. In addition, the implications of the findings of the effect of shareholder activism on firm performance are presented here.

6.2 Summary of Findings

This thesis analyzed the effect of shareholder activism on firm performance of all listed firms in Ghana. It also looked at other corporate governance variables such as board size, CEO tenure and CEO duality and its impact on firm performance.

The incidence of shareholder activism is rising in Ghana and this occurrence could be influenced by the SEC corporate governance guidelines that urge shareholders to be active in monitoring their firms. The findings show that HFC bank and Super paper product company (SPPC) recorded the highest incidence of activism in Ghana during the period of study. Analysis of their performance show that they recorded negative EVAs which is consistent the findings of Helwege, Intintoli & Zhang (2012) who states that activists target firms that underperform.

The empirical results show that shareholder activism actually improves firm performance (EVA) which is consistent with the agency theory which theorizes that due to separation of ownership and management the shareholders must monitor the managers in order to reduce the agency problem and obtain value. It is also consistent with the findings of Brav, Jiang, Thomas & Thomas (2008), Kandel et al., (2011), Becht et al., (2009, Roman (2013), and Strickland et al. (1996) who posit that shareholder activism improves firm performance and corporate governance.

This denotes that incidence of activism pressures management to take the right investment decisions and adhere to good corporate governance principles which eventually improves firm performance (EVA). The study finds that, on the average activism increase firm value by 24%.

The study also finds that activism does not improve firm performance at the stock market level (MVA) though the regression result is not statistically significant. This is consistent with Gillan & Starks (2000) who found that shareholder activism has negative impact on stock prices and Black (1998) who found that activism improve corporate governance but has insignificant impacts on share prices.

The result also show that listed firms in Ghana have an average board size of 8 and a maximum board size of 13 which is consistent with the findings of Abor (2007) and Kyereboah-Coleman (2007) and it falls within the recommendations by the SEC.

The finding also show that C.E.Os who double as chairperson of the board of directors represent only 7%.This show that 93% of all the listed firms in Ghana do not have their CEO doubling as the board chair.

Board size is positively related to firm performance and it is significant at 5% implying that large board size improves firm performance. The study found that the average board size of listed firms in Ghana is 8 and the maximum is 13 which is within the recommended board size by SEC.

The result also show that C.E.O tenure is inversely related to firm performance and it is statistically significant at 10%. This denote that as C.E.Os stay in office for longer period they tend to focus less on value creation and possibly focus on empire building and stock holders respond to it. This study recommends that a stipulated limit of years for CEO to stay in office be instituted by SEC.

CEO duality has a positive nexus with EVA but a negative relation with MVA, however it is not significant in both cases (consistent with Kyereboah-Coleman, 2007).

This denotes that C.E.O duality improves firm performance when the firm is small but does not improve performance when the firm is large and listed. C.E.O duality in small firms speeds up decision making hence improving profitability.

6.3 Conclusion and Implications

The subject of shareholder activism has become very vital in Ghana because the financial system is growing and people are investing in the economy as a result they will want to protect their investments. These findings posits that activism is good for the firm, it adds value to the firm, and therefore shareholders should be active and monitor managers of the firm because active monitoring enhances shareholder wealth.

Moreover managers should not fight shareholders when they are making demands but rather they should meet these shareholders, listen to their concerns and negotiate for a consensus.

The implication is that investor conference should be encouraged to address shareholders concerns. Investor conference is a forum that bring management and shareholders together to discuss and address shareholders concerns. This serves as a conduit for conflict resolution but this is done by only a few blue chip firms in Ghana (Ecobank and Tullow Oil).

Finally, larger board size improves firm performance as the board members with varied backgrounds will contribute their expertise to help improve profitability. This is consistent with the findings of Kyereboah-Coleman (2007) who recommend that the ideal board size should be between 8 and 13 members but some listed firms do not satisfy this. This study recommends that all firms maintain a board size of between 8 and 13.

Shareholder activism has a positive effective on firm performance, it improves EVA and also improves corporate governance, therefore, all stakeholders should be educated to understand activism and use it as a tool for improving firm performance when necessary.

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APPENDIX

1.0 VIF TEST

Variable	VIF	1/VIF
Firm Size	3.03	0.329680
Firm Risk	1.99	0.501429
Logboard Size	1.77	0.563763
C.E.O Duality	1.40	0.713707
C.E.O Tenure	1.34	0.748043
Overheads costs	1.34	0.748401
Logfirm age	1.27	0.786078
Activism	1.17	0.854645
Mean VIF	1.66	

2.0 HETEROSKEDASTICITY TEST (E.V.A)

Breusch and Pagan Lagrangian multiplier test for random effects

eva[fcode,t] = Xb + u[fcode] + e[fcode,t]

Estimated results:

	Var	sd
EVA	5.661081	2.379303
e	3.036421	1.742533
u	2.04038	1.428419

Test: Var(u) = 0

chibar2(01) = 38.01

Prob> chibar2 = 0.0000

3.0 HETEROSKEDASTICITY TEST (M.V.A)

Breusch and Pagan Lagrangian multiplier test for random effects

mva[fcode,t] = Xb + u[fcode] + e[fcode,t]

Estimated results:

	Var	sd
MVA	4.528535	2.128035
e	0.8193189	0.9051624
u	3.696978	1.922753

Test: Var(u) = 0

chibar2(01) = 110.72

Prob> chibar2 = 0.0000

4.0 NORMALITY TEST

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
EVA	141	0.92881	7.856	4.658	0.00000
Activism	176	0.97564	3.252	2.696	0.00351
LogBoard size	176	0.96622	4.510	3.443	0.00029
CEO tenure	176	0.96631	4.499	3.437	0.00029
CEO duality	150	0.85758	16.571	6.365	0.00000
Logfirm age	176	0.93858	8.201	4.810	0.00000
Overheads costs	171	0.38558	80.021	10.003	0.00000
Firm risks	176	0.30748	92.467	10.348	0.00000
Firm size	174	0.97263	3.619	2.938	0.00165

5.0 HAUSMAN TEST FOR FIXED OR RANDOM EFFECT: E.V.A

	Coefficients (b) Modfe	(B) modre	(b-B) Difference	Sqrt (diag (V b-V_B)) S.E.
Activism	0.9827383	0.9755202	0.0072182	0.1246438
Logboard size	0.9762112	1.22878	-0.2525692	0.9067927
CEO tenure	-0.2196044	-0.1492615	-0.0703429	0.1151439
Logfirm age	1.335403	-0.1747962	1.5102	2.087396
Overheads costs	-1.014801	-0.706499	-0.3083019	0.5529225
Firm risk	-19.53024	7.588107	-27.11835	51.3624
Firm size	0.2933339	0.3823124	-0.0889784	0.470244

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(7) = (b-B)'[(V_b-V_B)^(-1)](b-B)

= 6.05

Prob>chi2 = 0.5335

6.0 HAUSMAN TEST FOR FIXED OR RANDOM EFFECT: M.V.A

	Coefficients			
	(b)	(B)	(b-B)	Sqrt (diag (V b-V_B))
	Modfe	modre	Difference	S.E
Activism	0.1012112	0.0511209	0.0500903	0.0522881
Logboard size	0.0139291	-0.3529022	0.3668313	0.4014029
CEO tenure	-0.2634935	-0.2440384	-0.019455	0.0484613
Logfirm age	1.730271	0.0301378	1.700133	1.017593
Overheads costs	0.3564932	0.5976462	-0.241153	0.3118497
Firm risk	-1.247011	1.855081	-3.102093	4.498044
Firm size	0.0694638	0.2725582	-0.2030944	0.258106

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(7) = (b-B)'[(V_b-V_B)^(-1)](b-B)

= 4.58

Prob>chi2 = 0.7114

8.0 WOOLDRIDGE TEST FOR AUTOCORRELATION IN PANEL DATA

8.1: EVA

H0: no first order autocorrelation

F(1, 19) = 0.135

Prob > F = 0.7173

8.2 MVA

H0: no first order autocorrelation

F(1, 18) = 6.608

Prob > F = 0.0193

8.3 ROA

H0: no first order autocorrelation

F(1, 23) = 2.062

Prob > F = 0.1645