Does national governance affect corporate governance and firm performance nexus? A comparative study of selected SSA countries

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Abstract

This study comparatively investigates the relationship between corporate governance and firm performance in selected Sub-Saharan African (SSA) countries, as well as the moderating role of country-level governance. The study employs panel regression analysis on a sample of 309 listed firms across five SSA countries—Botswana, Ghana, South Africa, Kenya, and Nigeria—over the period 2016–2022. The results show that firms operating in better-governed countries (Botswana, Ghana, and South Africa) exhibit a positive and significant effect of board independence on firm value, whereas firms in weak-governed nations (Kenya and Nigeria) display a negative relationship between board independence and firm value. In better-governed countries, the findings suggest a nuanced, context-dependent relationship between national governance quality and corporate governance-firm performance linkages. Moreover, in weak-governed nations, the findings suggest that country governance strengthens the positive effects of board size, board diversity, audit quality, related third-party transaction disclosure, and stakeholder engagement on firm performance. These findings imply that policymakers and regulators in emerging economies like those in the study sample should prioritize improving country governance frameworks.

Keywords: corporate governance, firm performance, national governance, stakeholder engagement, Sub-Saharan Africa

1. Introduction

Corporate governance has become a topic of increasing importance in both academic research and business practice, as it is widely recognized to have significant implications for firm performance and long-term sustainability (Neralla, 2021; Nguyen & Nguyen, 2016). Effective corporate governance, characterized by robust mechanisms for oversight, accountability, and shareholder protection, has been associated with a range of positive outcomes, including improved access to capital, better resource allocation, and enhanced investor confidence (Mensah, & Onumah, 2022; Sarpong-Danquah, Gyimah, Afriyie, & Asiamah, 2018; Isukul & Chizea, 2017a; Claessens & Yurtoglu, 2013). In addition, it is commonly accepted that good corporate governance practices improve firm performance (Ozdemir, 2020; Kapil & Mishra, 2019; Alabdullah et al, 2014; Wang, Che, Fan, & Gu, 2014).

There is a substantial body of literature that examined the firm-level determinants of corporate governance, such as ownership structure, and board composition (e.g., Mensah, & Boachie, 2023; Carney, Child, Lim & Tey, 2019). However, relatively fewer studies have explored the role of

national-level institutions in shaping corporate governance practices (Nguyen, Nguyen, Nguyen, & Truong, 2021; Bello, Said, Johari, & Kamarudin, 2020; Ojeka, Adegboye, Adegboye, Umukoro, Dahunsi, & Ozordi, 2019). The quality of a country's governance system, encompassing factors such as political stability, government effectiveness, and the rule of law, can have a significant impact on the incentives and constraints facing firms and their managers (Doidge, Karolyi, & Stulz, 2007; Pagano & Volpin, 2005). In this context, a growing body of research has investigated the relationship between national governance quality and corporate governance practices, as well as the implications for firm performance (Néeman, Paserman, & Simhon, 2018; Waweru, 2014; 2012; Adegbite & Nakajima, 2012). The findings, however, have been mixed, with some studies suggesting a strong positive relationship and others highlighting the moderating role of firm-level and industry-level characteristics (Filatotchev, Jackson, & Nakajima, 2013; Lau, Tse, & Zhou, 2002).

While research on corporate governance, national governance, and firm performance is not a novel area, previous studies in this field have predominantly concentrated on countries outside of the Sub-Saharan Africa (SSA) region (Tarighi, Hosseiny, Akbari, & Mohammadhosseini, 2023; Wu, 2021; Nguyen et al., 2021; Qing, Wooi, & Zulkafli, 2021; Zattoni et al., 2017; Wang et al., 2014). Despite the growing economic and geopolitical significance of the SSA region, previous studies (such as Boachie, 2023; Mensah, & Boachie, 2023; Mensah, & Onumah, 2022; Sarpong-Danquah et al., 2018; Isukul, & Chizea, 2017a; Isukul, & Chizea, 2017ab; Ntim, 2015; Abor, & Adjasi, 2007) in have not paid much attention to the impact of national governance on the nexus between corporate governance and firm performance. Also, prior studies fail to examine the impact of non-core corporate governance mechanisms (such as related party transaction disclosure, audit quality, and stakeholder engagements) on firm performance. Following this knowledge gap, this study conducts a comparative analysis of corporate governance practices in selected SSA countries, with a focus on understanding the role of national governance systems in shaping corporate governance and firm performance relationships. Specifically, the research seeks to address the following questions:

1) What is the relationship between different dimensions of corporate governance practices and firm performance in selected SSA countries?
2) Does national governance affect the relationship between corporate governance and firm performance?

The research paper makes a valuable contribution to the existing literature on firm performance and governance by examining the current corporate governance practices in developing countries. Moreover, it explores the moderating influence of national governance on the relationship between corporate governance (CG) and firm performance. Notably, in Sub-Saharan Africa (SSA), the majority of companies are closely held, either state-owned or privately owned (Mensah & Boachie, 2023). There is a recognized need for robust national governance in SSA to enhance effective firm governance. Additionally, the financial and governance systems in SSA require further development to address issues related to related party transactions and fraudulent activities commonly observed in developing nations. Furthermore, disclosure practices among firms in SSA lack standardization. While SSA businesses are increasingly acknowledging the importance of robust corporate governance mechanisms, the study argues that challenges posed by the weak economic structure, unstable political environment, and pervasive corruption hinder the development of effective corporate governance frameworks. Consequently, firm growth in SSA is

adversely affected. The study's sample comprises 309 listed companies from five SSA countries, enhancing the generalizability of the empirical findings. The results of this research will be beneficial for regulators in developing and emerging nations that share similar characteristics, as they deliberate on suitable corporate governance requirements and the advantages of ensuring high-quality national governance. The unique historical backgrounds of SSA countries, influenced by the cultures of occupying nations and those with business ties to SSA, make the SSA context particularly interesting for a study of this nature.

The remainder of this article is organized as follows. Section 2 presents the theoretical framework spelling out the relevant theories underpinning the study. Section 3 provides a review of empirical literature on corporate governance, national governance, and firms' performance. The conceptual framework is presented in section 4. In addition, section 5 outlines the research methodology, including the sample selection, variables, and analytical approach. Section 6 presents and discusses the empirical findings. Finally, section 7 concludes the study, summarizing the key findings and outlining avenues for future research.

1.1 Corporate governance frameworks in selected Sub-Saharan Africa

Developing nations have a variety of issues, including underdeveloped and illiquid stock markets, economic instability, insufficient legal parameters and investor protection, and frequent government involvement (Tsamenyi, Enninful-Adu, & Onumah, 2007). Specifically, the Sub-Saharan Africa region is characterized by significant diversity in terms of political, economic, and institutional development, which may lead to varying impacts of national governance on corporate governance across different country contexts (Waweru, 2014; Adegbite & Nakajima, 2012). According to Adegbite (2012), SSA countries are unprepared to adopt the kind of corporate governance employed in industrialized countries due to poor legal and judicial systems, a lack of professional human resource capability, and other reasons such as corruption. Corruption in Africa, according to Okike (2007), is mostly a cultural issue. The only way to abolish corruption in Africa is for cultural transformation, high ethical principles, and moral standards to be combined with solid corporate governance practices. As per Agyei-Mensah (2017), one means of masking corrupt activities is for corporations to offer adequate information. Some Sub-Saharan African governments have built up codes of best practices to regulate the administration of these enterprises to improve corporate governance processes in their respective country. These best practice guidelines are intended to provide some level of responsibility and dependability in business operations (Huse, 2007). Corporate governance practices in selected Sub-Saharan African nations are expressed in Table 1.

Table 1. Summary comparison of corporate governance provisions of the selected SSA countries

CG Provisions	South Africa	Nigeria	Ghana	Botswana	Kenya
Board structure	Unitary board	Unitary board	Unitary board	Not specified	Not specified
Board composition	Majority of NEDs	Majority of NEDs	Majority of NEDs	Not specified	A Balanced Mix
Board independence	Majority of NEDs	Majority of NEDs	Majority of NEDs	Not specified	Not specified
Board leadership	Separate chairman & CEO	Separate chairman & CEO	Separate chairman & CEO	Separate chairman & CEO	Separate chairman & CEO

Accounting and auditing	Internal audit function & audit committee	Internal audit function & audit committee	Internal audit function & audit committee	Internal audit function & audit committee	Internal audit function & audit committee
Composition of the audit committee	At least 3 and all must be NEDs	At least one member should be financially literate	The majority of the audit committee should be NEDs	Not specified	Not specified
Accounting and financial reporting	Accounting standards	Not specified	Not specified	Accounting standards	Not specified
Application of code	All firms irrespective of form	All listed firms and other public firms	All listed firms	All listed firms	Not specified
Compliance model	Apply and explain	Apply or explain	Apply or explain	Apply or explain	Not specified
Legal system	Common law	Common law	Common law	Common law	Common law

Note: Compiled from King IV Report, Nigeria Corporate Governance Code (2019), Ghana SEC's Corporate Governance Code (2020), Botswana Code of Corporate Governance; Principles for Corporate Governance in Kenya

2. Theoretical framework

The relationship between corporate governance, national governance, and firm performance is understood through the lens of institutional theory. This theory posits that organizations are influenced by the broader social, political, and regulatory environments in which they operate (Scott, 2013; Kaufmann, Kraay, & Mastruzzi, 2011; DiMaggio & Powell, 1983). The quality of a country's national governance system, encompassing factors such as political stability, government effectiveness, and the rule of law, can shape the incentives, constraints, and expectations facing firms and their managers, thereby influencing corporate governance practices and, ultimately, firm performance. A key proposition of institutional theory is the concept of institutional isomorphism. This suggests that organizations within a given field tend to become more similar over time as they adapt to the prevailing institutional pressures (Aggarwal, Erel, Ferreira, & Matos, 2011; DiMaggio & Powell, 1983). In the context of corporate governance, this implies that firms operating within a national environment with strong governance institutions are more likely to adopt similar governance practices to enhance their performance (Aguilera & Cuervo-Cazurra, 2004; Filatotchev et al., 2013). With the institutional theory, firms may engage in two main types of isomorphic behavior: coercive isomorphism and mimetic isomorphism (DiMaggio & Powell, 1983). Coercive isomorphism refers to the pressure exerted on organizations by powerful stakeholders, such as the government or regulatory bodies, to conform to certain governance practices (Aguilera & Cuervo-Cazurra, 2004). In the context of national governance quality, stronger legal and regulatory frameworks can compel firms to adopt more robust corporate governance mechanisms, such as independent boards, transparent disclosure, and effective shareholder rights (Doidge et al., 2007). Mimetic isomorphism, on the other hand, occurs when organizations model their behavior on successful peers, particularly in situations of uncertainty (DiMaggio & Powell, 1983). In a national environment with high-quality governance institutions, firms may be more inclined to emulate the governance practices of other successful, well-governed companies, as these practices are perceived to enhance legitimacy and performance (Filatotchev et al., 2013; Néeman et al., 2018).

The institutional perspective further suggests that the relationship between national governance, corporate governance, and firm performance may be mediated by the degree of alignment between

the firm's governance structures and the broader institutional environment (Aguilera & Cuervo-Cazurra, 2004; Filatotchev et al., 2013). Firms that can effectively adapt their governance practices to the institutional context are more likely to reap the benefits in terms of improved access to capital, better resource allocation, and enhanced investor confidence, ultimately leading to superior firm performance (Adegbite & Nakajima, 2012; Claessens & Yurtoglu, 2013; Bebchuk & Weisbach, 2010). Conversely, firms operating in national environments with weak governance institutions may face significant challenges in developing and implementing effective corporate governance practices, potentially leading to suboptimal firm performance (Doidge et al., 2007; Waweru, 2014). In such cases, the misalignment between the firm's governance structures and the broader institutional context can undermine the potential benefits of corporate governance, as firms may be unable to fully leverage their governance mechanisms to enhance firm performance. The institutional theory-based perspective, therefore, suggests that the quality of national governance plays a crucial role in shaping the relationship between corporate governance and firm performance.

3. Empirical literature review

3.1 Corporate governance and firm performance

The existing empirical literature extensively supports the significance of various governance mechanisms in shaping firm performance. Notably, studies have highlighted the impact of board size (Kapil & Mishra, 2019; Mertzanis et al., 2019; Tessema, 2019; Areneke, 2018) and board independence (Fauzi & Locke, 2012; Kapil & Mishra, 2019; Sarpong-Danquah et al., 2018; Zattoni et al., 2017; Navarro & Urquiza, 2015; Alabdullah et al., 2014; Neralla, 2021; Elnahass et al., 2022) on firm performance. Additionally, executive compensation, CEO characteristics, board diversity (Khan, 2023a; Nel, Scholtz, & Engelbrecht, 2020; Sarpong-Danquah et al., 2018), ownership structure, and corporate social responsibility (Aqib & Zaman, 2023; Nazir, 2023; Ayoungman, Shawon, Ahmed, Khan, & Islam, 2023) have been recognized as influential factors. These studies collectively demonstrate the role of these governance components in shaping the performance outcomes of firms.

The research conducted by Asiedu and Mensah (2023) provided evidence of a direct positive relationship between corporate governance (CG) and firm performance, with financial reporting quality acting as a mediating factor. Similarly, Siddiqui, YuSheng, and Tajeddini (2023) found a significant correlation between corporate social responsibility (CSR) disclosure and corporate reputation. Their study also highlighted the influential role of CEO integrity, ownership concentration, and corporate reputation in promoting CSR disclosure and improving firm performance. Ledi and Ameza-Xemalordzo (2023) discovered that corporate governance has a notable impact on stimulating CSR performance. Furthermore, their research revealed that effective corporate governance practices not only enhance the corporate image but also have a positive influence on overall firm performance. Khan's study (2023a) demonstrated that empowering women and increasing their autonomy leads to positive environmental outcomes through the advancement of technology. Additionally, the research by Mensah and Boachie (2023) emphasized the significance of board gender diversity, which acts as a significant moderator in the relationship between corporate governance and environmental management practices among firms in sub-Saharan Africa.

These studies collectively underscore the critical role of governance structures, incentives, and ethical practices in determining firm success. They also demonstrate the relevance of this research in diverse industries and settings, emphasizing its broad applicability and significance in the corporate world. However, there is ongoing research and debate on the nuanced aspects of this relationship, and further investigations are required to gain a deeper understanding of the complexities involved. From the background of previous research that has explored this theme, this paper will test the first hypothesis as follows:

> H_1: *Corporate governance mechanisms are positively related to firm performance in sub-Saharan Africa.*

3.2 Corporate governance, national governance, and firm performance

Recent research indicates that both company-level and national governance quality play a significant role in influencing business outcomes (Acheampong et al., 2023; Nabi, Asghar, Ayub, Tunio, Soho, & Ahad, 2023). Corporate governance is widely recognized as a crucial factor in determining firm performance, as it affects resource allocation, managerial incentives, and the protection of minority shareholder rights (La Porta et al., 1999). However, the relationship between corporate governance and business success becomes more intricate when considering the impact of national governance quality. Studies have found that in countries with poor national governance, the ability of corporate governance measures to influence firm performance may be limited (Raza et al., 2020). Weak institutional frameworks and high levels of corruption can undermine the effectiveness of corporate governance mechanisms in safeguarding shareholder interests and enhancing firm efficiency (Mauro, 1995). According to Zattoni et al. (2017), although board independence may have a limited direct impact on performance, the influence of national-level institutions significantly moderates this relationship. The national environment is likely to shape how well board arrangements align with legal requirements and function effectively.

According to Lu and Wang (2021), both corporate governance and cultural background influence the environmental performance and social responsibility disclosures of businesses. They found that companies operating in countries with stronger legal systems are less likely to provide voluntary CSR disclosures, suggesting that external governance can partially replace internal control. Moreover, nations characterized by low power distance, individualism, femininity, high uncertainty avoidance, and long-term orientation tend to foster thriving businesses. Wu (2021) also observed that the adverse effects of corporate governance on firm performance are mitigated by the presence of the rule of law and high regulatory quality. This implies that while a relationship exists between corporate governance and firm performance, its strength diminishes for companies operating in countries with weak legal frameworks. Furthermore, Nguyen et al. (2021) discovered that the success of businesses operating in countries with above-average national governance quality is positively influenced by gender diversity on boards. However, as the quality of national governance declines, the impact of gender diversity on company performance weakens and can even become detrimental to businesses. In the context of the coronavirus pandemic, Tarighi et al. (2023) found that it hurt Iranian corporate performance. Their research, aligned with agency theory, revealed a positive correlation between board independence, board meeting frequency, board financial expertise, and firm value. Based on the background of previous studies in this field, this paper endeavors to test the second and third hypotheses as follows:

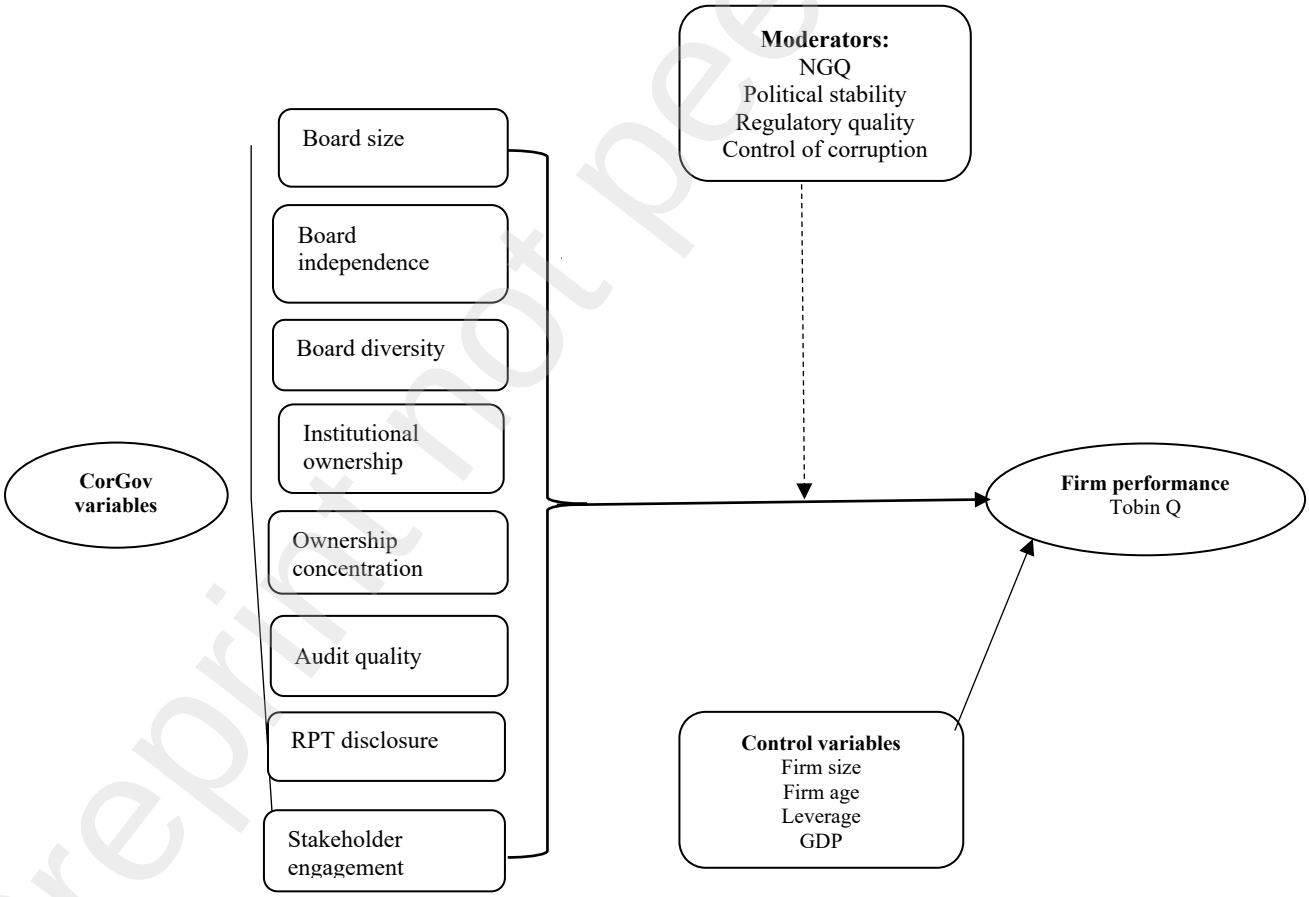
H_2: *Weak governance systems negatively affect the relationship between corporate governance and firm performance in sub-Saharan Africa.*

H_3: *Stronger governance systems positively affect the relationship between corporate governance and firm performance in sub-Saharan Africa.*

4. Conceptual framework

In this paper, corporate governance is examined through eight dimensions: board size, board independence, board diversity, institutional ownership, ownership concentration, audit quality, related party transaction disclosure, and stakeholder engagement. These dimensions are treated as independent variables. Meanwhile, the dependent variable is firm performance, which is measured using a market-based performance (Tobin Q) metric. The study also takes into account the following moderating variables national governance quality (NGQ), political stability, regulatory quality, and control of corruption. Figure 1 presents the conceptual framework employed to accomplish the objectives of the study.

Figure 1. The moderating role of national governance in the CG-firm performance nexus



5. Research methodology

Our study employs a cross-country panel data approach to investigate the relationship between corporate governance, national governance, and firm performance. The study focuses on all companies listed on stock markets in Botswana, Ghana, Kenya, Nigeria, and South Africa. The selection of these specific stock exchanges is justified for several reasons. Firstly, these exchanges are widely recognized as the largest and most active in the Sub-Saharan Africa region, based on the number of listed businesses and market capitalization (African Securities Exchanges Association [ASEA], 2023). Secondly, the selected countries share similarities, including being of Anglo-Saxon origin, having comparable systems for accounting, corporate governance, legal and corporate laws, and similar ownership structures. Furthermore, all of these countries have committed to adhering to international financial reporting standards. Additionally, these countries were selected based on their differing levels of national governance quality, as measured by the World Governance Indicators (WGI) developed by the World Bank (Kaufmann et al., 2010). Botswana, Ghana, and South Africa are characterized as having relatively strong national governance, while Kenya and Nigeria are considered to have weaker national governance systems.

The total number of listed firms across various capital markets in Sub-Saharan Africa is 881. However, for our study, the target population consists of 707 companies listed on the five selected stock exchanges as of 2022 (see Table 2). The analysis in this study covers the period from 2016 to 2022. The inclusion of companies in the study is based on three criteria: (i) the company must be listed on the stock exchanges of the selected countries, (ii) the reporting currency should not be foreign currency denominated, and (iii) the availability and completeness of the required corporate governance and financial data for the company for at least five years within the study period of 2016 to 2022. The process for determining the sample size is explained in Table 2.

Table 2. Sample size determination

Sample criteria		Total	South Africa	Nigeria	Ghana	Kenya	Botswana
Companies listed on the 20 capital markets in SSA countries as of 2022		881					
Less:	Companies NOT listed on the JSE, NGX, GSE, NSE, & BSE	(174)					
		707	413	155	37	66	36
Less:	Firms with < 5 years missing data between 2016-2022	(398)	(284)	(62)	(15)	(19)	(18)
Final sample size		309	129	93	22	47	18
Expected firm-year observations		**2,163**					

5.1 Model specification

The empirical analysis is conducted on two levels. In the first step, we examine the effect of corporate governance dimensions on firm performance while controlling for the effect of firm characteristics and economic growth. The model is stated as follows:

$$y_{it} = \alpha + \beta_j \mathrm{CG}_{it} + \beta_q \mathrm{Z}_{it} + \mu_i + e_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

In the second step, we undertake analysis by modifying the baseline model in equation (1) to include a variable for national governance and an interaction term (corporate governance ×

national governance). The moderating effect of national governance variables on the relationship between corporate governance and firms' performance is stated as follows:

$$y_{it} = \alpha + \beta_j \mathrm{CG}_{it} + \beta_n \mathrm{NGQ}_t + \beta_k (\mathrm{CG}_{it} * \mathrm{NGQ}_t) + \beta_q \mathrm{Z}_{it} + \mu_i + e_{it} \ldots\ldots\ldots \quad (2)$$

Where y represents firm performance (Tobin Q); the CG stands for 8 corporate governance variables (board size, board independence, board diversity, institutional ownership, ownership concentration, audit quality, related party transaction disclosure, and stakeholder engagement); NGQ represents national governance quality; Z stands for the control variables (firm size, firm age, leverage, and GDP); *i* represent the individual firm and *t* represent the period 2016-2022. The and μ_i represents the firm-fixed effect, and e_{it} is the regression error term.

5.2 Variable measurements

Firm performance is the dependent variable in the current study. Table 3 presents the definitions and proxies of the independent, control, and moderator variables used in this study.

Table 3. Variable descriptions and measurements

Notation	Variable	Measurement	Expected Sign	Sources
(A) *Dependent Variables*				
Firm performance:				
Q	Tobin Q	(market value of equity + book value of debt)/Book value of total assets	na	(Shahzada et al, 2021; Ozdemir, 2020; Ojeka et al, 2019)
(B) *Independent Variables*				
CG Variables:				
BS	Board size	The total number of directors on the board of a firm for each financial year	-/+	(Kapil & Mishra, 2019; Mertzanis *et al.,* 2019; Areneke, 2018)
BI	Board Independence	% of the total number of non-executive and independent directors on the board of a company	+	(Wu, 2021; Sarpong-Danquah et al., 2018)
BD	Board gender diversity	% of the total number of females on the board of a company	+	(Fernández-Temprano & Tejerina-Gaite, 2020; Aldehayyat et al., 2017)
IO	Institutional ownership	% of institutional ownership	+	(Ozdemir, 2020; Mertzanis et al., 2019)
OC	Ownership concentration	% of all shareholdings above 5 percent	-/+	(Mensah, & Boachie, 2023; Fattoum-Guedri *et al.*, 2018)
AQ	Audit quality	Dummy variable: 1 = if the company designated one of the Big 4 to certify their financial statements, 0 = otherwise	+	(Haddad, 2022)
RD	RPT disclosure	Dummy variable: 1 = if the company discloses related party transactions in their financial statements, 0 = otherwise	+	(Nguyen et al., 2023; Diab, 2019)
SE	Stakeholders' engagement	Dummy variable: 1 = if the company reports on community involvement/participation, 0 = otherwise	+	(Isukul & Chizea, 2017a,b)
(C) *Moderating Variable*				
NGQ	National governance quality	NGQ = (Voice and Accountability + Political Stability and Absence of Violence + Government Effectiveness + Regulatory Quality + Rule of Law + Control of Corruption)/6.	+	(Mensah, & Boachie, 2023; Qing et al., 2021; Ali et al., 2022)
(D) *Control Variables*				
SIZE	Firm size	Natural logarithm of total assets of firm i at year t	+	(Anita & Dharmastuti, 2022; Azzam et al., 2020)
AGE	Firm age	Current year minus the firm listing year	+	(Mensah, & Boachie, 2023)
LEV	Leverage	The ratio of total debt to total assets of firm i at year t	-/+	(Anita & Dharmastuti, 2022; Azzam et al., 2020)

GDP	GDP growth rate	The annual GDP growth of year t	-/+	(Qureshi et al., 2019; Lawal et al., 2018)

5.3 Estimation approach

We utilize a comparative analysis framework by employing panel data regression techniques. This approach is particularly valuable for cross-country comparisons as it allows for the control of unobserved firm-specific and country-specific effects, an important consideration (Wooldridge, 2010). Based on the diagnostic test conducted using our data (refer to Table 4), it is evident that the majority of the OLS assumptions have been violated. Consequently, when working with panel data that exhibits heteroskedasticity, multicollinearity, autocorrelation, and issues related to data normality, a suitable regression technique to consider is the Panel Corrected Standard Errors (PCSE) regression (Mensah & Boachie, 2023). It is a technique for estimating regression coefficients in the presence of first-order autocorrelation, where the error terms in a regression model are correlated over time.

Table 4. Diagnostics tests

	Test	**Model 1**	**Model 2a-b**
(i) Heteroskedasticity test	Breusch-Pagan / Cook-Weisberg	93.020***	53.110***
(ii) Multicollinearity test	Mean VIF	12.460	1.210
(iii) Autocorrelation test	Breusch-Godfrey LM	4 248.761***	264.444***
(iv) Normality test	Jarque-Bera	7627.235***	7911.630***

Notes: The triple stars (***) represent significance at 1%, double stars (**) represent significance at 5%, and a single star (*) refers to significance at 10%.

To facilitate the comparative analysis, we first grouped the selected SSA countries into different categories based on their governance quality, as measured by the World Governance Indicators (WGI) indicators. Countries with positive governance status are considered to be better-governed, whereas countries with negative status are weak-governed (see Table 5). This grouping enables us to examine the heterogeneous effects of governance on firm performance across countries with varying institutional environments.

Table 5. Classification of countries based on WGI, 2016-2022

Countries	**PS**	**CC**	**RQ**	**VA**	**GE**	**RL**	**NGQ**	**Status**
Botswana	1.025	0.703	0.599	0.449	0.350	0.409	3.536	Better
Ghana	0.028	-0.140	-0.191	0.529	-0.212	-0.007	0.006	Better
Kenya	-1.107	-0.847	-0.371	-0.273	-0.393	-0.443	-3.435	Weak
Nigeria	-1.911	-1.096	-0.972	-0.476	-1.100	-0.916	-6.471	Weak
South Africa	-0.383	-0.099	-0.004	0.675	0.036	-0.095	0.130	Better

Notes: WGI = world governance index; PS = political stability and absence of terrorism; CC = control of corruption; RQ = regulatory quality; VA= voice and accountability; GE = governance effectiveness; RL= rule of law; NGQ = national governance quality

Furthermore, we incorporate interaction effects between governance indicators and company governance practices to investigate the potential mechanisms through which national governance systems influence firm performance. This would help to elucidate how the impact of governance varies based on the specific attributes of the firms operating in the selected SSA countries.

6. Results and discussions

6.1 Descriptive statistics on CG practices between firms operating in better-governed nations and those in less-governed countries

Table 6 presents a comparison of corporate governance (CG) practices between better-governed countries (Botswana, Ghana, and South Africa) and less-governed countries (Kenya and Nigeria). Our study observes that better-governed countries have a mean board size of 10.298 (approximately 10 members), with a range of 3 to 30 members. Also, less-governed countries have a mean board size of 9.862 (approximately 10 members), with a range of 2 to 26 members. These findings suggest that there is no significant difference in the size of corporate boards between better-governed countries and less-governed countries within the SSA region. The similarity in board sizes across the better-governed and less-governed countries could be influenced by factors such as industry norms, regulatory requirements, or cultural practices (Lu & Wang, 2021) that converge on a certain optimal board size, regardless of the broader national governance conditions.

Table 6. CG practices between firms operating in better-governed nations and those in less-governed countries

	Better-governed countries (Botswana, Ghana, & South Africa)			Less-governed countries (Kenya & Nigeria)		
Variables	Mean	Minimum	Maximum	Mean	Minimum	Maximum
BS	10.298	3.000	30.000	9.862	2.000	26.000
BI	0.696	0.000	1.000	0.744	0.091	1.000
BD	0.245	0.000	0.667	0.194	0.000	0.667
IO	0.628	0.000	0.999	0.575	0.000	0.997
OC	0.888	0.100	0.999	0.876	0.050	0.999
AQ	0.743	0.000	1.000	0.648	0.000	1.000
RD	0.664	0.000	1.000	0.413	0.000	1.000
SE	0.804	0.000	1.000	0.682	0.000	1.000

Notes: This table presents descriptive results of the corporate governance variables: observations for countries with better governance systems - 1,121, observations for countries with weak governance systems – 960. The notations in this table are as defined and measured in Table 3.

We also found that better-governed countries have a lower level of board independence, with an average of 69.6% independent board membership. In contrast, the less-governed countries were observed to have a higher level of board independence, with an average of 74.4% independent board membership. This suggests that firms in less-governed countries rely more heavily on independent directors as a means to compensate for the broader institutional weaknesses and enhance the oversight function of the board. Whereas in better-governed countries, other governance mechanisms may play a greater role, reducing the need for as high a proportion of independent directors.

Our study also found that companies operating in better-governed countries in SSA have a higher level of gender diversity on their corporate boards. Specifically, the mean board gender diversity in better-governed countries was 24.5%. In contrast, firms in less-governed countries were observed to have a lower mean board gender diversity of 19.4%. This suggests that the corporate

boards of companies based in countries with stronger overall governance tend to have a greater representation of women directors compared to firms operating in countries with weaker governance environments in the SSA region.

We further found that companies in better-governed countries in SSA have a higher average level of institutional ownership at 62.8% while firms operating in less-governed countries within the region have a lower mean institutional ownership of 57.5%. This suggests that institutional investors may be more attracted to and willing to invest in companies domiciled in countries with more robust governance frameworks, as this may provide greater assurance and protection for their investments. Alternatively, the higher institutional ownership in better-governed countries could also reflect a more developed financial system and capital market that facilitates greater institutional participation in corporate ownership. The study reveals that corporate ownership in better-governed countries tends to be more concentrated (88.8%), with a smaller number of shareholders controlling a larger proportion of the equity, compared to the ownership structure in less-governed countries (87.6%). The relatively small difference in ownership concentration between the two groups of countries indicates that the degree of ownership dispersion may not be a strong distinguishing factor in terms of the broader governance environment. This can mean that concentrated ownership structures could exist irrespective of the overall quality of national governance, potentially driven by factors such as family-owned businesses, dominant shareholders, or historically entrenched ownership patterns. Alternatively, concentrated ownership could serve as a governance mechanism in both better-governed and less-governed contexts, with controlling shareholders playing a more active role in monitoring and overseeing the management of the firm.

We observed that companies in better-governed countries in Sub-Saharan Africa (SSA) have a higher average audit quality of 74.3%. In contrast, firms operating in less-governed countries within the region exhibit a lower mean audit quality of 64.8%. This suggests that better-governed countries may have more robust regulatory oversight, stricter auditing standards, and greater enforcement mechanisms to ensure higher-quality audits. This, in turn, may enhance the credibility and reliability of financial reporting for firms in these countries. Alternatively, the auditing profession and market may be more developed and competitive in better-governed environments, attracting higher-quality audit service providers and enabling more effective auditing practices.

Our study observed that companies in better-governed countries in SSA have a higher average level of disclosure related to third-party transactions at 66.4% while firms operating in less-governed countries within the region exhibit a lower mean level of remuneration disclosure at 41.3%. This suggests that better-governed countries may have more stringent regulations, listing requirements, or investor expectations that compel firms to provide greater transparency around related party dealings. Conversely, less-governed countries may have weaker disclosure frameworks or enforcement, leading to lower related third-party transaction disclosure. Alternatively, the differences could also reflect the corporate cultures and governance norms that prevail in these distinct national contexts, with firms in better-governed countries potentially placing a higher priority on transparency as a means of building trust and credibility.

Our research reveals that companies operating in better-governed countries in SSA have a higher average level of stakeholder engagement at 80.4% while firms in less-governed countries within the region exhibit a lower mean stakeholder engagement score of 68.2%. This suggests that corporations based in countries with stronger overall governance frameworks tend to have more extensive and meaningful engagement with their various stakeholders, such as employees, customers, suppliers, and local communities as compared to those in weak-governed countries.

6.2 Descriptive statistics on firm performance between firms operating in better-governed nations and those in weak-governed countries

Table 7 presents a comparative analysis of firm performance between countries with stronger corporate governance systems and those with weaker governance frameworks. Our results show that for firms operating in countries with better-governed systems, such as Botswana, Ghana, and South Africa, the mean Tobin's Q (a measure of a firm's market value relative to its book value) is 1.566. In contrast, for firms in countries with weaker governance systems, such as Kenya and Nigeria, the mean Tobin's Q is lower at 1.226. This finding suggests that, on average, firms in better-governed countries are perceived to be more valuable by the market compared to companies operating in weak-governed countries. This difference in market valuation could be attributed to various factors, including better corporate governance practices, management, and level of investor confidence.

Table 7. Firm performance between firms operating in better-governed nations and those in weak-governed countries

	Better-governed countries (Botswana, Ghana, & South Africa)			Less-governed countries (Kenya & Nigeria)		
Variable	Mean	Minimum	Maximum	Mean	Minimum	Maximum
Q	1.566	-3.348	8.989	1.226	-3.907	7.810

Notes: This table presents descriptive results of the firm performance variables: observations for countries with better governance systems - 1,121, observations for countries with weak governance systems – 960. The notations in this table are as defined and measured in Table 3.

6.3 Effect of CG practices on the performance of firms in SSA countries

The panel-corrected standard error (PCSE) regression analysis reported in Table 8 examines the impact of corporate governance (CG) on firm performance, measured by Tobin's Q, in selected Sub-Saharan African (SSA) countries. The full-sample analysis reveals that most of the corporate governance mechanisms (except for board independence) have a positive effect on firm performance. The study's findings validate the hypothesis that corporate governance mechanisms are positively associated with firm performance in the sub-Saharan African context. However, the study found a surprising result where board independence is negatively and statistically significantly related to Tobin's Q. The researchers suspect that this may be due to the prevalence of family and friends on the corporate boards in these SSA countries. Firms with weaker board independence tend to exhibit lower performance, as the interests of shareholders and investors are not adequately protected when boards are poorly constituted, leading to lower firm value. This finding is consistent with previous empirical research in the SSA context (Sarpong-Danquah et al., 2018; Neralla, 2021; Elnahass et al., 2022). To further investigate this finding, the researchers decided to conduct a subsample analysis, classifying the firms into those from better-governed countries and those from weak-governed countries. The results show that firms in better-governed countries exhibit a positive and significant effect of board independence on firm value, whereas firms in weak-governed countries display a negative relationship between board independence and

firm performance. This suggests that the effect of board independence on firm performance may be contingent on the overall quality of the governance framework in the country. In stronger governance environments, board independence can contribute positively to firm value, while in weaker governance settings, board independence may not be as effective in promoting firm performance.

As reported in Table 8, we also found some interesting nuances in the relationship between corporate governance mechanisms and firm performance, based on the quality of the national governance systems. In countries with better-governed systems, the analysis revealed that board diversity, institutional ownership, ownership concentration, and stakeholder engagement do not necessarily contribute to improved firm valuation. This is rather surprising even though Lu and Wang (2021) also shared a similar result. In contrast, for firms operating in weak-governed countries, the results show that institutional ownership and ownership concentration have a negative relationship with firm performance. However, board diversity and stakeholder engagement display a positive relationship with firm performance in these weaker governance settings. Notably, the study found that regardless of the overall national governance quality, certain corporate governance mechanisms consistently demonstrate a positive association with firm performance. Specifically, the board size, audit quality, and related-party transaction (RPT) disclosure have a positive relationship with firm performance across the sample. These findings suggest that the effectiveness of corporate governance practices in influencing firm performance may be contingent on the broader institutional and regulatory context in which firms operate. This finding is also consistent with previous empirical research such as Wu (2021), Nguyen et al. (2021), and Tarighi et al. (2023).

Table 8. PCSE regression on the effect of CG on firm performance in SSA countries – model 1

Variables	Firms in all countries	Firms in better-governed countries	Firms in weak-governed countries
BS	0.003***	0.030*	0.059***
	(0.001)	(0.0174)	(0.018)
BI	-0.043***	0.648**	-0.332*
	(0.017)	(0.334)	(0.183)
BD	0.052***	-0.742***	0.685**
	(0.025)	(0.306)	(0.349)
IO	0.022**	-0.536***	-0.197
	(0.011)	(0.127)	(.134)
OC	0.001	-0.655***	-0.075
	(0.019)	(0.250)	(0.272)
AQ	0.024***	0.427***	0.061
	(0.008)	(0.131)	(0.094)
RD	0.003	0.373***	0.159***
	(0.004)	(0.156)	(0.059)
SE	0.004	-0.275*	0.008
	(0.006)	(0.160)	(0.078)
Controls:			
SIZE	-0.001	-0.289***	-0.254
	(0.003)	(0.043)	(0.047)
AGE	0.001	0.010**	0.003
	(0.001)	(0.005)	(0.004)
LEV	-0.111***	0.551***	0.562***
	(0.007)	(0.143)	(0.061)
GDP	0.151***	0.160	0.502
	(0.065)	(0.632)	(0.607)
_cons	0.050*	3.388***	2.498***
	(0.028)	(0.613)	(0.378)

Number of obs	2081	1121	960
Number of firms	309	169	140
R^2	0.259	0.373	0.418
Wald $\chi^2(12)$	499.300	215.410	278.040
Prob > χ^2	0.000	0.000	0.000
Rhos	0.672	0.668	0.620

Notes: This table reports regression results on the effect of corporate governance on firm performance. Standard errors are presented in parentheses. The notations in this table are as defined and measured in Table 3. The triple stars (***) represent significance at 1%, double stars (**) represent significance at 5%, and a single star (*) refers to significance at 10%.

6.5 Effect of national governance on the relationship between CG and firms' performance

Table 9 presents the Panel-Corrected Standard Errors (PCSE) regression results, which examine the moderating influence of national governance on the relationship between corporate governance and firms' performance. Models 2a and 2b in the analysis indicate that the quality of national governance in the SSA region, as measured by factors such as government effectiveness, regulatory quality, and control of corruption, does not necessarily translate into enhanced performance outcomes for the firms operating within that governance context. This finding appears to contradict the general expectation that country-level governance would be associated with better firm-level performance (Acheampong et al., 2023; Nabi, Asghar, Ayub, Tunio, Soho, & Ahad, 2023).

Table 9. The moderating effect of national governance on the relationship between CG and firms' performance using the PCSE estimation technique

	Firms in better-governed countries (Model 2a)		Firms in weak-governed countries (model 2b)	
Variables	Without moderation	With moderation	With moderation	With moderation
BS	0.030* (0.017)		0.059*** (0.018)	
BI	0.648** (0.334)		-0.332* (0.183)	
BD	-0.742*** (0.306)		0.685** (0.349)	
IO	-0.536*** (0.127)		-0.197 (0.134)	
OC	-0.655*** (0.250)		-0.075 (0.272)	
AQ	0.427*** (0.131)		0.061 (0.094)	
RD	0.373*** (0.156)		0.159*** (0.059)	
SE	-0.275* (0.160)		0.008 (0.078)	
NGQ		-0.053 (0.253)		-0.014 (0.274)
BS*NGQ		0.047* (0.027)		0.093*** (0.028)
BI*NGQ		1.054** (0.520)		-0.530* (0.273)
BD*NGQ		-1.171*** (0.478)		1.041*** (0.513)
IO*NGQ		-0.833*** (0.196)		-0.316 (0.236)
OC*NGQ		-1.015*** (0.388)		-0.126 (0.384)

AQ*NGQ		0.653*** (0.204)		0.081 (0.150)
RD*NGQ		0.583*** (0.242)		0.253*** (0.101)
SE*NGQ		-0.441* (0.256)		0.003 (0.126)
Controls:				
SIZE	-0.289*** (0.043)	-0.289*** (0.043)	-0.254 (0.047)	-0.256***(0.047)
AGE	0.010** (0.005)	0.010* (0.005)	0.003 (0.004)	0.004(0.003)
LEV	0.551*** (0.143)	0.551*** (0.143)	0.562*** (0.061)	0.561***(0.061)
GDP	0.160 (0.632)	0.159 (0.632)	0.502 (0.607)	0.387(0.631)
_cons	3.388*** (0.613)	3.388*** (0.613)	2.498*** (0.378)	2.504***(0.3898)
Number of obs	1121	1121	960	960
Number of firms	169	169	140	140
R^2	0.3736	0.373	0.418	0.418
Wald $\chi^2(12)$	215.41	215.670	278.040	278.200
Prob > χ^2	0.000	0.000	0.000	0.000
Rhos	0.668	0.667	0.620	0.620

Notes: This table reports regression results on the effect of corporate governance on firm performance. Standard errors are presented in parentheses. The notations in this table are as defined and measured in Table 3. The triple stars (***) represent significance at 1%, double stars (**) represent significance at 5%, and a single star (*) refers to significance at 10%.

The findings from Model 2a indicate that for firms operating in better-governed countries, national governance positively moderates the relationship between several corporate governance mechanisms and firm performance. Specifically, the results show that national governance enhances the positive effects of board size, board independence, audit quality, and related party transaction disclosure on firm performance. However, the analysis also reveals that country governance adversely affects the relationship between other corporate governance mechanisms, such as board diversity, institutional ownership, ownership concentration, stakeholder engagement, and firm performance. This finding suggests a nuanced and context-dependent role of national governance, where it positively moderates some corporate governance-firm performance linkages while negatively moderating others. As a result, the study's Hypothesis 3, which had anticipated a consistently positive moderating role of national governance, is not fully supported.

The findings from Model 2b suggest that for firms operating in weak-governed countries, the systems of national governance positively moderate the relationship between several corporate governance mechanisms and firm performance. Specifically, the results indicate that country governance strengthens the positive effects of board size, board diversity, audit quality, related party transaction disclosure, and stakeholder engagement on firm performance. This finding is inconsistent with the study's Hypothesis 2, which had anticipated that the governance systems of weak-governed countries would negatively affect the corporate governance-firm performance relationship. However, the analysis also reveals that national governance is observed to adversely affect the relationship between other corporate governance mechanisms, such as board independence, institutional ownership, and ownership concentration, and firm performance for firms in weak-governed countries.

7. Conclusion and recommendations

This study investigates the relationship between corporate governance and firm performance in selected Sub-Saharan African (SSA) countries, as well as the moderating role of country-level governance. The researchers focus on SSA countries because these nations are often characterized by low investor protection, limited information transparency, inefficient capital markets, and weak governance and institutional frameworks. The researchers employ panel regression analysis on a sample of 309 firms across five SSA countries - Botswana, Ghana, South Africa, Kenya, and Nigeria - over the period 2016 to 2022. The study concludes that there is no significant difference in the size of corporate boards between better-governed countries and weak-governed countries within the SSA region. The similarity in board sizes across the better-governed and less-governed countries could be influenced by factors such as industry norms, regulatory requirements, or cultural practices (Lu & Wang, 2021). Also, the study observed that better-governed countries have a lower level of board independence compared with firms operating in weak-governed countries. However, our study further observed that companies operating in better-governed countries in SSA have a higher level of corporate governance mechanisms in terms of - gender diversity, institutional ownership, concentrated ownership, audit quality, related third-party transactions disclosure, and stakeholder engagement – compared to firms in weak-governed countries. The study further observed that companies operating in better-governed countries in SSA exhibit better firm performance compared to companies operating in weak-governed countries.

Our results show that most corporate governance mechanisms (except for board independence) have a positive effect on firm performance. We conducted a subsample analysis of firms operating in better-governed countries and those from weak-governed countries and found empirical supporting evidence that firms in better-governed countries exhibit a positive and significant effect of board independence on firm value, whereas firms in weak-governed countries display a negative relationship between board independence and firm performance. These findings are consistent with agency theory, where firms fail to practice good corporate governance, which increases the agency problem among the board of directors, top management, and shareholders.

Our findings also suggest a nuanced, context-dependent relationship between national governance quality and the corporate governance-firm performance linkages. For firms operating in better-governed countries, national governance positively moderates some corporate governance mechanisms, but negatively moderates others. However, the findings suggest that for firms operating in weak-governed countries, the results indicate that country governance strengthens the positive effects of board size, board diversity, audit quality, related party transaction disclosure, and stakeholder engagement on firm performance. Drawing on institutional theory, these results imply that in weaker governance contexts, firm-level corporate governance is more heavily shaped by the broader national institutions and social systems (Aguilera & Cuervo-Cazurra, 2004; Aggarwal et al., 2011; Filatotchev et al., 2013). Our findings imply that country-level governance appears to be a more critical determinant of the efficacy of firm governance mechanisms in enhancing performance. Thus, policymakers and regulators in emerging economies like those in the study sample should prioritize improving country-level governance frameworks. Strengthening national governance institutions can create more value for firms and make the overall business environment more attractive for investment and operations.

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