

Corporate Governance and Strategic Management

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Abstract

The strategic role of board of directors in ensuring organizational success cannot be gainsaid. This paper examines the concept of corporate governance and how it affects strategic management. For the eleven public companies surveyed, the evidence indicates that, they have good corporate governance practices. In terms of membership, outside directors were more than inside directors. The companies also had important sub-committees of the boards to deal with matters in detail before they pre-presented to the Boards. There is seemingly low female representation on the boards of public companies. Overall, the public companies adhere to good corporate governance.

Introduction

Corporate governance and strategic management are two areas of management that have gained popularity in business circles in recent times. Good corporate governance is a *sine qua non* for the success of both public and private companies.

A company is a well established institution that allows different parties to contribute capital, expertise, and labour for their mutual benefit. The shareholders who are the principals anticipate profits. Management as agents, take charge of the day to day running of the company but are accountable to a board of directors who represent the interest of shareholders. The board of directors is also accountable to the shareholders at least on an annual basis during the annual general meetings. Good corporate governance ensures that, there is proper representation of interested parties on boards of directors to provide the necessary leadership. In terms of strategic management

decisions, the extent of a board's involvement is in a continuum; from low (passive) to high (active).

This paper examines the meaning of corporate governance, board membership, criteria for the selection of board members and the role of the board of directors in strategic management.

Meaning of Corporate Governance

Like many concepts, corporate governance lacks a single definition. Some of the popular definitions are as follows:

Wheelen and Hunger (2008) define corporate governance as the relationship among shareholders, board of directors and management in determining the direction and performance of the company.

Wood (1994) noted that corporate governance has to do with how a company is structured, what policies and objectives it seeks to fulfill, how it is managed, and which stakeholder interests it serves.

In the *Manual on Corporate Governance in Ghana*, the concept refers to the manner in which the power of a corporation is exercised in the stewardship of a corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and respect of the legal rights of all stakeholders in the context of its corporate mission.

Cochran and Wartick (1984) share the views of the above definitions and submit that corporate governance is an umbrella term that includes specific issues arising from interactions among senior management, shareholders, boards of directors, and other corporate stakeholders. The

two questions that form the core of corporate governance issues are: (a) who benefits from corporate decisions/senior management actions, and (b) who should benefit from corporate decisions/senior management actions?

The Securities and Exchange Commission of Ghana, explains corporate governance to encompass:

- The management of the relationships between a corporate body's management, its board, its shareholders and other stakeholders.
- The provision of the structure through which the objectives of the company are identified and the monitoring of the means used to attain these objectives, including the monitoring of performance in this regard.
- Bringing more transparency to bear on the decision-making processes of the company.
- The provision of proper incentives for the board and management to pursue objectives that are in the interests of the corporate body and shareholders.
- Encouraging the use of resources in a more efficient manner.
- The management of risk and the minimization of the effects of commercial misadventure.

Given the importance of corporate governance, public companies in Ghana are required to include a report on corporate governance in their Annual Reports to shareholders. The Corporate governance report provides information about key activities of the company and the various committees under the board of directors as well as standards of business conduct. This corporate governance report is one way through which management is able to demonstrate transparency and accountability in the affairs of a company.

Boards of Directors and Corporate Governance

In the traditional model of corporate governance, the board of directors has a fiduciary responsibility

to act in the interests of shareholders. Their duties are: To establish policy, oversee corporate performance, and hold senior executives, especially the Chief Executive Officer (CEO), accountable. In other, more inclusive models of corporate governance, the roles and responsibilities of the board are much the same, except that the board is charged with acting in the interests of larger and more diverse sets of stakeholders.

Koontz (1967) in his classic work on *The Board of Directors and Effective Management* identified the following as the basic responsibilities of Boards:

- Trusteeship – safeguarding and husbanding of the company's assets in the long-term interests of the shareholders
- Determination of enterprise objectives
- Selection of Executives.
- Securing Long-range Business Stability and Growth
- Assuring that Major Plans Are Designed to Meet Objectives
- Approval of Major Company Decisions
- Checking on Results-ascertaining that events are conforming to plans.
- Disposition of Company Profits and Assets
- Approval of Mergers and Acquisitions

Demb and Neubauer (1992) and Heller (1972) list the following seven board responsibilities in order of importance:

- Setting corporate strategy, overall direction, mission, or vision
- Hiring and firing the CEO and top Management
- Controlling, monitoring, or supervising top management
- Reviewing and approving the use of resources
- Caring for shareholder interests.
- Mediate top management disputes and disagreements.
- Approve important financial decisions and report these to shareholders.

Cadbury (2002) summarizes the main functions of the board as follows:

- To define the company's purpose
- To agree strategies and plans for achieving that purpose

- To establish the company's policies
- To appoint the chief executive
- To monitor and assess the performance of the executive team
- To assess their own performance

Epstein and Roy (2006) state that high-performance boards must achieve three core objectives:

- Provide superior strategic guidance to ensure the company's growth and prosperity;
- Ensure accountability of the company to its stakeholders, including shareholders, employees, customers, suppliers, regulators and the community
- Ensure that a highly qualified executive team is managing the company.

Based on the above, one can identify the setting of corporate strategy, purpose and policies and evaluation of organizational performance as some of the critical areas that good corporate governance should cover. Steiner and Steiner (2000) expresses the link between corporate governance and strategic management when they noted that corporate governance is concerned with the formation of long-term objectives and plans and the proper management structure (Organizations, systems, and people) to achieve them.

Board Membership

Generally, the smaller the company is, the less active is its board of directors. The board tends to be dominated by directors who are also owner-managers of the company. Other directors are usually friends or family members. As the company grows and goes public, however, the board becomes more active in terms of roles and responsibilities.

Unitary board of directors is the form of board structure in Ghana which is also used in the UK and the USA. It is characterized by one single board comprising both executive and non-executive directors. Executive directors (sometimes called management / inside directors) are officers or managers employed by the company. Non-executive or outside directors may be executives of other firms but are not employees of the board's company.

Section 180 of Ghana's Companies Code 1963 (Act 179) stipulates that every company shall have not less than two directors.

Although there is no clear evidence that a high proportion of outsiders on a board results in improved corporate performance, there is a global trend to increase the number of outsiders on boards.

Table 1 depicts the membership of eleven public companies in Ghana. It can be observed that the number of non-executives (outside directors) is more than insiders (executive directors) based on the 2007 Annual reports, albeit the board size does not change frequently. Insiders are active top-level managers in the company who are elected to the board because they are a source of information about the firm's day-to-day operations (Baysinder and Hoskisson, 1990). Outsiders are individuals elected to the board to provide independent counsel to the firm and may hold top-level managerial positions in another company or have been elected to the board prior to the beginning of the current CEO's tenure (Zajac and Westphal, 1996).

Bealy and Zajac (1994) submit that, in general, those critical of boards as a governance device believe that inside managers dominate boards and exploit their personal ties with them. A widely accepted view is that a board with a significant percentage of its membership from the firm's top executives tends to provide relatively weak monitoring and control of managerial decisions. Critics advocate reforms to ensure that independent outside directors represent a significant majority of the total membership of a board.

Another significant point from Table 1 is the low number of female representation on the Boards. In some cases, there is no female on the board. However, in the case of the position of secretary to the board, there were more females (6) compared to males (4). One of the companies used a corporate

Table 1 Composition of Board of Directors of Selected Public Companies in Ghana

Company	Total	Outside	Inside	Male	Female
Ecobank Ghana Ltd	8	6	2	6	2
Mechanical Lloyd Co. Ltd	7	4	3	7	-
Cal Bank Ltd.	8	7	1	7	1
Aluworks Ltd	9	8	1	9	-
SG-SSB Ltd	11	8	3	10	1
Ghana Commercial Bank Ltd.	9	7	2	8	1
Total Petroleum Gh. Ltd	11	10	1	11	-
Unilever Ghana Ltd.	10	5	5	9	1
Fan Milk Ltd	7	6	1	6	1
Enterprise Insurance Co. Ltd	7	6	1	6	1
HFC Bank	10	7	3	9	1

Source: Compiled from the 2007 Annual Reports of the Companies

body for its secretaryship function. All the boards were chaired by outside executives.

Committees of Boards

Most boards have set up committees to carry out certain specific functions. According to Charkham (2005), committees of the board are used for various purposes, the main one being to assist the dispatch of business by considering in more detail that would be convenient for the whole board. The second purpose is to increase objectivity either because of inherent conflicts of interest such as executive remuneration.

The most common committees include: Audit, Nomination, Finance and Remuneration.

The *Audit Committee's* terms of reference according to Dume (1991) are:

- Review the financial statement before publication;
- Consult with external and internal auditors (if there are any) regarding any matters arising in the course of the audit which should be brought to the board's attention;
- Report to the board on the adequacy of internal systems and financial controls;
- Report to the board on the scope of the external audit;

- Recommend to the board the appointment and remuneration of the external auditors.

The *Nomination Committee* recommends the reappointment of existing Directors and selects and proposes the appointment of new Directors to the Board. It is instructive to note that the shareholders elect the directors to the board at the company's annual general meeting. The use of nomination committee is one possible way to make the board appointment process more transparent.

The *Finance Committee* considers financing and treasury decisions concerning the company, including the giving of guarantees and indemnities.

The *Remuneration Committee* has responsibility for determining policy on executive remuneration and the remuneration of Executive Directors and monitors the remuneration of other senior employees. Usually, no Director is involved in deciding his or her own remuneration. The Committee consults with the Chief Executive Officer, where appropriate, with regard to the remuneration of other Executive Directors and has access to professional advice both inside and outside the company. The Chief Executive officer keeps the committee informed on matters relating to the

terms and conditions of senior executives in the company below board level.

Apart from the above committees, *the Manual on Corporate Governance in Ghana* indicates that Companies listed on the Ghana Stock Exchange and others, non-listed, large corporations should also have a governance committee to ensure that the company complies with all relevant laws, regulations and codes of best practices. This committee may be represented by both executive and non-executive directors but should be chaired by a non-executive director.

A review of the 2007 Annual Report of the eleven companies and summarized in Table 2 reveals that all of them had an Audit Committee with membership ranging between three and six.

Table 2 Board Sub-Committees

Company	Audit Committee	Remuneration Committee
Eco bank Ghana Ltd.	4	-
Mechanical Lloyd Co. Ltd.	4	-
Cal Bank Ltd	3	3
Aluworks Ltd.	4	5
SG SSB Ltd	6	-
Ghana Commerical Bank Ltd.	5	5
Total Petroleum Ghana Ltd.	5	-
Unilever Ghana Ltd.	4	-
FanMilk Ltd.	4	-
Enterprise Insurance Co. Ltd.	4	-
HFC Bank	3	5

Only six of the companies had Remuneration Committee. Three of the companies had one executive board member as part of the Audit Committee. In all the cases, Remuneration Committee consisted of only non-executive directors. Only four of the companies reported on who chaired the Audit Committee. Of this, two of the Committees were chaired by the Board Chairman and the other two by the non-executive members.

Only three of the companies disclosed the chair of the Remuneration Committee and all were chaired

by the Board Chairmen. Other Committees used by some of the companies include nomination, investment and strategy, finance and credit, legal and public relations, and Governance and Strategy Committee.

The activities, meetings and major decisions of the various committees of the boards are reported under the corporate governance activities in the Annual reports of companies. This corporate governance report is thus one way through which management is able to demonstrate transparency and accountability in the affairs of a company.

Criteria for Selecting Board Members

Cadbury (2002:59) noted that the traditional way of listing active directors was by word of mouth. *Chairman would ask for suitable names from their board colleagues and possibly from their professional advisers. They would then put their preferred candidates to their boards, who would be more or less bound to accept them. The selection process would start with names, not with the task. They noted that Politicians have been the worst offenders in this regard, too often taking the view that the precise requirements of the post they were trying to fill were almost irrelevant.*

The Commonwealth Association for Corporate Governance (CACG) principle 2 on board appointments states inter alia: *The board should ensure that through a managed and effective process board appointments are made that provide a mix of proficient directors, each of whom is able to add value and to bring independent judgement to bear on the decision-making process. The board should be composed of people of integrity who can bring a blend of knowledge, skills, objectivity, experience and commitment to the board which should be led by a capable Chairman who brings out the best in each director. Crucial to this, is having a proper director selection process to avoid the propensity for "cronyism" and "tokenism".*

Consequently, the composition of the board should be planned with strategic considerations and objectives of the company in mind".

There are a number of criteria commonly used to select members to a board of directors. Koontz (1968) identified the following as the qualification of board members. Most of which are still relevant in the selection of strategic leaders.

- Business Experience, knowledge and capability
- Ability to contribute to Board balance
- Success in Principal field of Endeavour
- Stature in the Community
- Maturity
- Interest in the Company
- Willingness to Spend Time

Muellar (1978) noted that it is hard to specify the level of board quality that meets the needs of a company. Each firm needs a quality board that suits its situation as directed by its stage of growth, size, technology, the Chief Executive Officer's management style, calibre of top management, key issues facing the enterprise, among others.

Paine and Anderson (1983), divided the criteria for selecting board members into two categories: demographic (related to unique characteristics of background) and committee skills (something which may aid the board to function in a better way). Table 3 lists these criteria. Since there is no way to specify which ones are more important for a particular board, all should probably be considered when evaluating a particular candidate. The key point is to broaden the range of skills and perspectives available to the Board and its Committees.

The Institute of Directors (UK) has developed the following list as action for deciding board composition:

- Consider the ratio and number of executive and non-executive directors.
- Consider the energy, experience, knowledge, skill and personal attributes of current and prospective directors in relation to the future needs of the board as a whole, and develop specifications and processes for new appointments, as necessary.
- Consider the cohesion, dynamic tension and diversity of the board and its leadership by the chairman.

Table 3 Criteria for Selecting Board Members

Demographic	Committee Skills
<ol style="list-style-type: none"> 1. Experience and expertise, especially in the same industry, in strategic decisions, or in a key functional area. 2. Availability Especially important in getting representation from women or minority groups. 3. Visibility. 4. Heterogeneity Important in adding a new dimension to the board and helping avoid groupthink. 5. Representation of key constituents, for example, unions and customers. 	<ol style="list-style-type: none"> 1. Objectivity with willingness to criticize. 2. Organisational skills applied to achieving the board's tasks.

- Make and review succession plans for directors and the company secretary.
- Where necessary, remove incompetent or unsuitable directors or the company secretary, taking relevant legal, contractual, ethical and commercial matters into account.
- Agree proper procedures for electing a chairman and appointing the managing director and other directors.
- Identify potential

Source: Paine, F.T. and Anderson, C.R. (1983) *Strategic Management*. New York: The Dryden Press p.369

Candidates for the board, make selection and agree terms of appointment and remuneration. New appointments should be agreed by every board member.

- Provide new board members with a comprehensive induction to board processes and policies, inclusion to the company and their new role.
- Monitor and appraise each individual's performance, behaviour, knowledge, effectiveness and values rigorously and regularly.
- Identify development needs and training opportunities for existing and potential directors and the company secretary.

What is the Role of the Board in Strategic Management?

Strategy formulation is the responsibility of top management. The board of directors is responsible for setting the strategic direction for leading and controlling activities of the executive directors and other senior management. As Hitt, Ireland and Hoskisson (2001) noted, Corporate governance represents the relationship among stakeholders that is used to determine and control the strategic direction and performance of organizations. In practice, however, the extent of the board's involvement vary from company to company. In general, the board's role is to examine the process by which strategy is determined and to recommend improvements to those processes so that improved strategies can be developed.

Table 4 Degree of Involvement in Strategic Decisions by the Board of Directors

Low	The board approves strategies formulated by management and monitors subsequent performance. It is difficult to determine whether management or environmental forces are causing performance changes
Moderate	The board determines corporate goals and objectives. Since the board has some involvement, they are better able to evaluate management performance in the light of environmental changes
High	The board closely examines strategic plans and approves them after careful analysis. Performance is judged to be due to the strategy formulation process rather than to external forces.

Source: Paine, F.T. and Anderson, C.R. (1983). *Strategic Management*. New York: The Dryden Press p.370.

The significance of the role of board of directors in corporate governance and strategic management has been lucidly explained by Principle 3 of the guidelines developed by the Commonwealth Association for Corporate Governance (CACG) as it defined the purpose of the corporation (that is its strategic intent and objectives as a business enterprise) and its values (that is, its organizational behaviour and norms to achieve its purpose).

The board should guide and set the pace for the corporation's current operations and future developments. The board should regularly review and evaluate the present and future strengths, weaknesses, opportunities and threat to the company.

The range of a board's involvement in strategic decisions has been described by Paine and Anderson (1983) in Table 4. At low-involvement levels, the board is only concerned with monitoring management performance on strategies that management formulates.

At lower levels, it is difficult to evaluate whether high or low performance is caused by management or by market forces, since the board has neither the information nor the means (the specific plans and how they were generated) to undertake this evaluation. At moderate levels of involvement, the board sets goals and objectives and improves its evaluation process. At high levels of involvement, strategic plans are approved after careful analysis. Good or poor performance can now be tied to the strategic plan or market forces which have been evaluated as part of the plan.

To ensure that board members participate actively in the strategic management process, they should be well informed about their role and about the company's business. This briefing should normally take place as soon as

they are appointed. The CACG principle 2 captures this succinctly as *New directors should be familiarized with the company's operations, senior management and its business environment and be inducted in terms of their fiduciary duties and responsibilities as well as in respect of the board's expectations. If new directors have no board experience, they should receive training in their unaccustomed responsibility which carries with it significant personal liabilities.* The briefing can be done by the Chief Executive Officer, Company Secretary and other members of the senior management team.

Wheelen and Hunger (2008) were right when they noted that the role of the board in strategic management is to carry out three basic tasks:

- **Monitor.** By acting through its committees, a board can keep abreast of developments both inside and outside the company. It can thus bring to management's attention, developments it might have overlooked. At a minimum, a board should carry out this task.
- **Evaluate and influence.** A board can examine management's proposals, decisions, and actions; agree or disagree with them, give advice and offer suggestions, and outline

alternatives. More active boards do this in addition to monitoring management's activities.

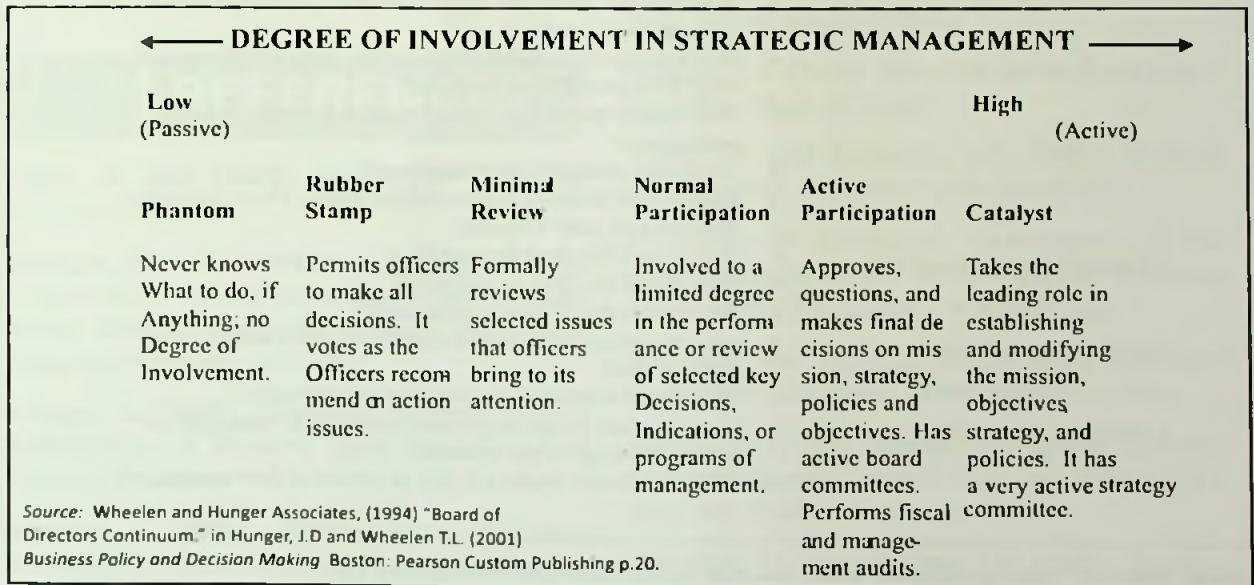
- **Initiate and determine.** A board can delineate a company's mission and specify strategic options to its management. Only the most active boards take on this task in addition to the previous two.

It is important to note that specific top management tasks vary from firm to firm and are developed from an analysis of the mission, objectives, strategies, and key activities of the company. The chief executive officer, in particular, must successfully handle two responsibilities crucial to the effective strategic management of the company: (1) provide visionary leadership and a strategic vision, and (2) manage the strategic planning process.

A board of directors is involved in strategic management to the extent that it carries out the three tasks of monitoring, evaluating and influencing, and initiating and determining.

The board of directors continuum shown in Figure 1 depicts the possible degree of involvement (from low to high) in the strategic management process. Boards can range from phantom boards with no real

Figure 1 Board of Directors Continuum



involvement to catalyst boards with a very high degree of involvement. As noted by Wheelen and Hunger (2008), research suggests that active board involvement in strategic management is positively related to corporate financial performance.

Highly involved boards tend to be very active. They take their tasks of monitoring, evaluating and influencing, and determining very seriously; they advise when necessary and keep management alert. As depicted in Figure 1, their heavy involvement in the strategic management process places them in the active participation or even catalyst position.

As a board becomes less involved in the affairs of the company, it moves further to the left on the continuum. On the far left are passive phantom or rubber stamp boards that typically never initiate or determine strategy unless a crisis occurs.

Current Issues in Corporate Governance

Based on best practices on corporate governance, questions are raised at every organizational level. Table 5 presents some of the corporate governance questions raised at various points in the corporate structure.

Other concerns that have been raised include:

- How many years a director should serve before retiring or how many times a director can be re-elected/re-appointed.
- How to balance gender representation.
- What disclosure should be made about compensation for board members.
- How institutional investors should be represented on boards.
- Should board members own shares in the company to show their interest in the company and its affairs.
- Should a retiring Chief Executive Officer (CEO) continue to serve on the board.

Table 5 Current Questions in Corporate Governance

Organizational Level	Governance Questions
External environment	<ul style="list-style-type: none"> • To what extent should stakeholder interests be represented in corporate plans and actions? • What role should be played by external auditors in assessing corporate performance on behalf of owners and other stakeholders?
Board of directors	<ul style="list-style-type: none"> • How will various interests be represented in board actions and decisions? • How does the board view the relationship between governance and corporate performance? • How representative should the board be, given its stakeholders map? Who should be on the board? • How closely should the board monitor company and CEO performance? • Are boards controlled by management? • Should there be limits on interlocking boards, where executives serve on each other's boards?
Chief Executive Officer (CEO)	<ul style="list-style-type: none"> • Should the CEO chair the board? • How should the CEO be evaluated? • How should the CEO be compensated?
Senior management	<ul style="list-style-type: none"> • What proportion of the board should be insiders -senior Management? • How should executive compensation be determined?
Lower-level employees	<ul style="list-style-type: none"> • To what extent should employees participate in "management" decision making? In governance? • What role should employees play as owners of their companies?

Source: Wood, J.D. (1994) *Business and Society*, New York: Harper Collins College Publishers p.561

- What limit should be set for the number of other board seats each director may hold.

Conclusion

The paper has highlighted the crucial role board of directors play in corporate governance especially in providing strategic direction and ensuring transparency and accountability in company operations. For the eleven companies surveyed, the number of inside directors are fewer than the outside directors which is seen as healthy in terms of monitoring and control of managerial decisions. Also all the boards of the companies were chaired by outside executives.

In general, there is low female representation on the boards of public companies in Ghana, although there are relatively more females who serve as secretaries to corporate boards.

Because of their strategic role, the selection of board members should be carefully done to ensure that people with the requisite skills and expertise are appointed to serve on the board. Conscious effort should be made by firms to increase female representation on boards.

There is also extensive use of relevant sub-committees of the Boards in indication of best practices.

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