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Corporate governance as the driver of economic growth in Sub-Saharan African Countries

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ABSTRACT

Purpose:
Corporate governance in essence is designed to lead to economic growth. Nevertheless, despite placing great emphasis on promoting corporate governance practices over the years, countries in Sub-Saharan Africa (SSA) have so far achieved insignificant or no economic growth. This, however, is inconsistent to the findings observed in developed countries.

Design/methodology/approach:
The study examined connections between corporate governance, macroeconomic fundamentals, the institutional environment and economic growth in Sub Saharan African countries. Panel Vector Autoregression (PVAR) models and impulse response functions were applied to analyse sets of panel data from 29 countries in Sub Saharan Africa for 7 years from 2008.

Findings:
The findings suggest that disaggregated variables of corporate governance, macroeconomic fundamentals and the institutional environment have a positive but insignificant relationship with economic growth. It was also found that aggregated composite; corporate governance, macroeconomic fundamentals and the institutional environment have a statistically strong significant relationship with economic growth. The results of the impulse response functions predict that, there will be a 0.01 per cent growth in the economies of Sub-Saharan African countries if there is a continued interaction between aggregated variables under the present conditions observed during the period of the investigation. The PVAR results showed that the future outcome of economic growth can be predicted from the past behaviour of aggregated composite corporate governance. The impulse response and variance deposition. The findings lead to the conclusion that aggregated corporate governance within both a given year and that of previous periods are major determinants of economic growth.

Research limitations/implications:
The implications of the findings for countries within Sub Saharan Africa is that promoting corporate governance only might be insufficient to stimulate growth of economies, rather it must be enhanced concurrently with macroeconomic fundamentals and the institutional environment. If past behaviour is a contributing factor of the future performance of corporate governance then, a reflection on the past governance behaviour can help to develop effective corporate governance practices that affect the present and future economic growth.

Originality/value:
This study contributes to literature by testing application the theoretical relevance of corporate governance theories to the context of Sub-Saharan African countries economies. The findings suggest that sound corporate governance on its owned is insufficient to stimulate and sustain to economic growth within countries under investigation. As, adduced by evidence corporate governance affect economic growth is context dependent. More attention can be paid to examining the link corporate governance linkages to economic growth in different contexts in future studies.

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1. Introduction

The concept of corporate governance is recognised as a foundational pillar for achieving economic growth through its contribution to improved firm performance. Several country and region specific codes were formed in an attempt to promote good principles of governance practices in corporation such as the Cadbury (1992), Organisation for Economic Co-Operation and Development (OCED) (1994, 2004, 2015), King Report (1992, 2002, 2009, 2016), New Partnership for African Development (NEPAD) (2016) Resultantly, there is a widespread acknowledgement of sound governance of firms as a foundation for economic growth, compelling the emphasis and advocacy of its the development all in firms within countries. Despite, this emphasis it appears corporate governance has yielded varied results across countries. The industrialised economies yielded substantial economic growth rates whilst the unindustrialised economies it has yielded negligible contribution to economic growth. The 10 years annual reports for the World Economic Forum (WEF) starting in the year 2006 to 2015 point to the improved corporate governance among western countries that enhanced firm productivity and competiveness and in turn promoted economic growth (WEF, 2010, 2011, 2013, 2014) whilst it appears to have no contribution to growth of Sub-Saharan African economies. This suggest that differences in economic growth between countries is determined by variances in corporate governance within companies. This study examines whether corporate governance in Sub Saharan Africa firms determines economic growth within countries.

Comparative studies that determine whether corporate governance contributes to economic prosperity in the Sub-Saharan African environment remains few. Most country specific studies focused on investigating corporate governance at firm level (Gerged and Agwili, 2020, Tshipa, Brummer, Wolmarans, and Du Toit, 2018, Nakpodia, 2018, Isingoma, 2018). Findings in Maune (2021) revealed that government effectiveness, control of corruption, regulatory quality, voice and accountability had a positive and significant effect on economic growth whilst regulatory quality had inconsequential effect. Empirical evidence from country studies are useful to a limited since their scope do not extent to Sub Saharan African countries contexts. There are several comparative corporate governance and economic growth studies that were conducted such as those by Claessens (2006), La Porta et al. (1997), Doidge et al. (2008) and Djnakov et al. (2008). The majority of these studies focused on developed countries context with no focus on the African environment. Although these studies overlooked focusing on countries in Sub Saharan Africa, their findings provide hindsight on how corporate governance affects economic growth however these findings cannot be generalised to the context of economies. The need to strengthen governance of corporations to enhance economic growth in Sub Saharan African countries was further highlighted by NEPAD (2016). Cross country studies such by Munisi et al. (2014). Adegbite et al. (2013) and Gutsavson et al. (2009) observed that weak legislative and institutional environment is an obstacle to corporate governance. Afolabi (2015) avers that multiple factors such as legal systems, good governance, financial development and macroeconomic environment are major determinant of corporate governance.

2 Literature and theoretical background

2.1 Theoretical Review

Corporate governance is widely held as a determinant of economic growth in all economies through its connection to increased firm productivity and efficiency. Corporate governance according to the King IV (2016:20) report encompasses "the exercise of ethical and effective leadership by the governing body towards the achievement of ethical culture, good performance, effective control and legitimacy". This definition takes into account the need to safeguard maximisation of shareholder wealth creation. Ethical and effective leadership highlighted in this definition embodies the idea that the management of the company must have a positive relationship with all the stakeholders of the entity. This is in line with the suggestions by the OECD (2015) and Claessens & Yortglou (2013) who view corporate governance as the effective management of a set of interactions that a corporation has with all its stakeholders. Hence an entity that practices good corporate governance is expected to contribute positively to all stakeholders. That is it should also have a positive economic contribution.

The King IV (2016:20) report also goes on to highlight that;

"Ethical leadership is exemplified by integrity, competence, responsibility, accountability, fairness and transparency. It involves the anticipation and prevention, or otherwise amelioration, of the negative consequences of the organization's activities and outputs on the economy, society and the environment and the capitals that it uses and affects. Effective leadership is results-driven. It is about achieving strategic objectives and positive outcomes. Effective leadership includes, but goes beyond, an internal focus on effective and efficient execution".

Thus, corporate governance is widely held to contribute to economic prosperity through its implications to firm performance and value creation. Theoretical principles underlying the resource dependence as well as the social capital theories embodies the central thinking of maximisation of firm value creation through efficient performance of the firm. Tricker (2009) posits that dependence theory together with social capital theory consider effectiveness of an organization as dependent the interrelationships and regulating interdependencies in order to survive in the environment. If follows that, whilst creating a balance among the wellbeing of all stakeholders, the efficient use of resources through the exercise of effective and ethical leadership beyond the borders of the organization constitute the functions corporate governance. Bansal and Desjardine (2014) regards the shareholder theory as focusing on maximizing shareholder wealth. According to Solomon (2011) the stakeholder theory ensues balancing the welfares of all stakeholders. Hence, the promotion of corporate governance should among other things leads to creation of wealth for all and consequently the promotion of economic growth.

The principles underpinning the agency theory and the stewardship theory justify the need to maximise shareholder value creation as an essential goal for corporate governance. The stewardship theory emphasises the moral, fiduciary and legal obligations of directors to run firms in the interests of the shareholders and the corporation as the spirit and letter of corporate governance (García-Meca et al., 2014). This entails that efficient corporate governance should effectively minimise diverging interest between the agent and the principal. Berle and Means (1932), Jensen and Meckling (1976) as well as Smith (1776) long explained in the agency theory that since the management of firms lies in the hands of managers who are not the owners of that company conflict of interest between principal and agent were bound to arise. As such the need to manage the conflicts of interest so as to safeguard of investors' resources against expropriation by insiders and those in control of the company give rise to the need for sound governance of the firms. Enhancing firm performance essentially contribute to growth in productivity of economies through safeguarding the investor's resources and optimising productivity of firms by the way it is governed.

2.2 Previous studies

Sub Saharan African countries began to construct their national economic and social policies to accelerate their national wellbeing since getting their independence in the 1960s (Osman et al., 2011). Osman et al. (2011) observed in the mid-1960s to early 1970s the region experienced high economic and social development. This might be an indication that perhaps favourable conditions existed that prompted such economic growth to occur during this period. However, evidence from the United Nations Conference on Trade and Development (UNCTD) (2013) report for 2013 reveals that, since 1971 the many economies in the Sub-Saharan Africa region were underdeveloped countries. Furthermore, the UN LDC (2013), report shows that 31 of Sub-Saharan Africa countries formed part of the 48 less developing countries. It is evident that 63 % of least developed economies for the past five decades were from the Sub-Saharan Africa region. Moreover, UN World Economic Situation and Prospect, (2014) also asserts that Sub Saharan Africa as the region that consists of the majority of developing countries. The trends affirms the WEF survey reports which further reveal a continuous low economic growth that is associated with low corporate governance in Sub Saharan Africa for the past 10 years since 2006 to 2015.

Okeahalam and Akinboade (2003) clarify how through the Structural Adjustment Programmes (SAPs) efforts started international bodies such as IMF and World Bank lead to the emerging of corporate governance in Africa around the 1980s and early 1990s. Okeahalam and Akinboade (2003) explained that the idea of corporate governance was introduced to African countries through SAPs that emphasised free market economic systems like the converting of state-owned companies to private companies. Hence, it may be argued corporate governance was introduced by donor and funding agencies in African countries as a condition for granting financial credit and aid. Beck et al. (2003) assert that corporate governance systems in Africa countries were primarily inherited from colonisation.

The WEF annual surveys reports since 2006 to 2015 highlight the increased adaption of corporate governance among western countries and the United States of America. The WEF reports indicates that corporate governance appears to enhance productivity and competiveness in companies that to the end of achieving economic growth in developed economies whilst it appears to have insignificant contribution to growth of economies Sub Saharan Africa. It is apparent that putting in place corporate governance principles and practices does not necessarily culminate in economic growth but rather it depends on the nature of the interaction of variables that promote growth of economies within a particular environment.

There are certain factors that promote economic growth. It is the interaction of these specific factors that creates an enabling environment for economic growth to occur. Isuku and Chizea (2015), Wintoki et al. (2012) elucidates that corporate governance is affected by the interaction between the firms and the institutions. This leads to the presumption that economic growth is determined by corporate governance and its interactions with the institutional and macroeconomic environment. The formation of corporate governance that determine growth of the economy is influenced by the institutional environment (OECD, 2015). This suggest that sound institutional framework is a precursor harnessing a corporate governance system that fosters economic growth. The legal infrastructure affects the governance of individual companies by means of written laws and enforcement of such laws (Dallas, 2004). Empirical evidence reveals that sound legislation and regulatory frameworks as necessary predictors of the creation of effective corporate governance (Claessens and Yortoglou, 2013, Djankov et al, 2008, Doidge et al, 2008). Standard and Poor (2008) found evidence that the expense of setting up corporate governance structures and practices to exorbitant in countries with weak legal systems compared to those with strong legal systems. The WEF (2015) identifies the legal systems has got judicial independence, property rights, investor protection and the efficiency of the legal framework. Kaufmann et al. (2010) describe good governance as consisting of six variables namely; voice and accountability, government effectiveness, anti-corruption, political stability, regulatory qualities and rule of law. WEF (2015) identifies financial development as encompassing financing using the market as well as regulation of securities of exchange.

Evidence from studies by Isuku and Chizea (2015), Lounsbury (2005) Arslan and Alqatan (2020) reveals that the institutional environment affects the growth of formal and informal structures in the organization. This means the performance of institutions in a particular environment affects the formation of corporate governance. Arslan and Alqatan (2020) and Nhuta (2014) elucidates that institutions influence corporate governance practices by creating legitimacy, constrains and similarity of structure. Scot (1987) views institutions as enduring systems of social beliefs and socially organized practices and structures that save different functions in the society.

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3. Methodology

This study adapted a positivist philosophy which constructs knowledge through collecting and converting empirical data into numerical form so that statistical estimations and evaluation can be conducted and conclusions drawn. A quantitative approach was applied since all variables used in this study were numerically measured henceforth quantitative techniques informed this research. Panel data techniques was used to analyse the data.

3.1 Measurement of Study Variables

3.1.1 Dependent Variable

Economic growth is represented by Gross Domestic Product annual % (GDP) available at the World Development Indicator (WDI), available at World Bank database. The duration of the study was limited to 2014 by the availability of data due to scarcity of data in African countries.

3.1.2 Independent Variables

Corporate governance is presented by efficacy of board, disclosure and transparency, protection of minority shareholder, shareholder suit and director liability. The World Economic Forum Global Competitive Reports annual surveys provides data on efficacy of board, extent of disclosure and transparency. Annual data on protection of minority, director liability and shareholder suits was accessed from Easy of doing business an online data found on the World Bank Website. The legal systems are proxied by strength of investor protection, property rights, legal rights, efficiency of the legal system and judicial independence annual data accessed from the WEF online website. Good governance is represented by six composite indicators of voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption that provided by The World Governance Indicator annual data available on World Bank website. Owing to the scarcity data in Sub Saharan African countries the study used financing using local equity market and regulation of securities exchange annual data available on the WEF website as proxies of financial development. As proxies of the macroeconomic fundamentals this study incorporates foreign direct investment and inflation. Inflation deflator and foreign direct investment data found at the Wold Development Indicators database available on the World Bank website.

3.2 Analytical models

Using disaggregated and aggregated data the study specified and estimated Panel Vector Autoregression (PVAR) models to investigate whether corporate governance, institutional, macroeconomic fundamentals determine economic growth. The PVAR assumes that all variables are endogenous and interdependent (Verbeek, 2004). The PVAR model for estimating corporate governance and economic growth relationship is specified as follows:

$$Y_{it} = Y_{it-1}A_1 + Y_{it-2}A_2 + \cdots + Y_{it-p+1}A_{p-1+}Y_{it-p}A_p + X_{it}\beta + u_{it} + e_{it} \quad (1)$$

$A = 1,..N, t = 1 ...$, where, Y_{it} represent the vector of explanatory variables that is GDP in this study, X_{it}, vector of exogenous explanatory variables u_{it} and e_{it} vectors of explanatory variable-specific fixed-effects and idiosyncratic errors, respectively. $A_1, A_{2,...,}A_{P-1,}A_P$; β are parameters to be estimated of the endogenous variables.

Y_{it} representing lags of the explanatory variable on the variable itself that is present values of economic growth as represented by GDP. X_{it} proxies of lagged values of the explanatory or dependent variables. Model to be estimated is specified as follows.

Where;

$Corporate\ governance$ = f($\text{GDP}_{\_t-1}$,$\text{Prmsrty}_{\_t-1}$,$\text{Sharsit}_{\_t-1}$ $\text{Dirliab}_{\_t-1}$, $\text{Disctranpar}\_{}_{t-1}$, $\text{Effbrd}\_{}_{t-1}$)

Where $\text{GDP}_{\_t-1}$ = Gross Demostic Product in lag 1, $\text{Prmsrty}_{\_t-1}$, proxies protection of minority shareholder in lag 1, $\text{Sharsit}_{\_t-1}$ is shareholder suit in lag 1, $\text{Dirliab}_{\_t-1}$ representing director liability, $\text{Disctranpa}\_{}_{t-1}$ representing disclosure and transparency and $\text{Effbrd}\_{}_{t-1}$ is efficacy of board lag 1

$Legal\ systems$ = f (GDP_{t-1} ,comp_Cgov_{t-1} ,$\text{legrts}\_{}_{t-1}$,$\text{prorit}\_{}_{t-1}$,$\text{judicind}_{\_t-1}$,$\text{inver}\_{}_{t-1}$, $\text{eff}\_{}_{t-1}$)

$\text{GDP}_{\_t-1}$ = Gross Demostic Product in lag 1, $\text{comp\_Cgov}_{t-1_{t-1}}$, represents composite corporate governance in lag 1, $\text{legrts}_{}_{t-1}$is legal right in lag 1, $\text{prorit}_{}_{t-1}$representing property rights lag 1 , $\text{judicind}_{\_t-1}$ is judicial independence lag 1 and $\text{inver}_{}_{t-1}$investor rights, $\text{efflf}\_{}_{t-1}$ representing the efficiency of the legal framework lag 1

$Good\ governance$ =f(GDP_{t-1},comp_cgov_{t-1}, $\text{polst}_{\_t-1}$, $\text{gvteff}_{\_t-1}$, $\text{voiacca}_{\_t-1}$, $\text{ctnrcrrption}_{t-1}$,$\text{rull}_{\_t-1}$, $\text{regqty}_{\_t-1}$)

$\text{GDP}_{\_t-1}$ = Gross Demostic Product in lag 1, Aggc_Cgov_{t-1} is composite corporate governance lag 1 , $\text{polst}_{\_t-1}$ is political stability lag 1, $\text{gvteff}_{\_t-1}$ is government effectiveness lag 1, $\text{voiacca}_{\_t-1}$, voice and accountability lag 1, ctnrcrrpt_{t-1} is control for corruption lag 1, $\text{rull}_{\_t-1}$ is rule of law lag 1 , $\text{regqty}_{\_t-1}$ is regulation quality lag 1

$Financial\ development$ = f(GDP_{t-1}, comp_cgov_{t-1}, $\text{fintmkt}\_{}_{t-1}$,$\text{regsecsex}\_{}_{t-1}$)

GDP_{t-1} =Gross Domestic Product lag 1, comp_cgov_{t-1} is aggregated composite corporate governance lag 1, $\text{fintmkt}\_{}_{t-1}$ is financing through the market lag 1, $\text{regsecsex}\_{}_{t-1}$ is regulation of securities of exchange lag 1

$Macroeconomic\ fundamentals = f(\text{GDP}_{t-1}, \text{comp\_cgov}_{t-1}, \text{gross\_}_{t-1}, \text{fdifm\_}_{t-1}, \text{infl\_}_{t-1},)$

$\text{GDP}_{t-1} =$ gross domestic product lag 1, compccgov_{t-1} proxies composite corporate governance lag 1$\text{Aggcomp_legst}_{t-1}$composite legal systems comp_ggov_{t-1},composite good governance lag 1, comp_fdmt_{t-1} is composite financial development lag 1, comp_mfls_{t-1} is composite macroeconomic fundamentals.

The pvar models that examine relationships using aggregated data is specified as follows:

$Y_{it} = Y_{it-1}A_1 + Y_{it-2}A_2 + \cdots + Y_{it-p+1}A_{p-1+}Y_{it-p}A_p + X_{it}B + u_{it} + e_{it}$

$Y_{it} = F(GDP_{t-1,} comp\_cgov_{t-1}, \text{comp\_legrts}_{t-1}, \text{comp\_gg}_{t-1}, \text{comp\_fdmt}_{t-1}, \text{comp\_mfls}_{t-1})$

Where, $comp\_cgov_{t-1}$, comp_legrts_{t-1}, comp_gg_{t-1}, comp_fdmt_{t-1}, comp_mfls_{t-1})

Where, $comp\_cgov_{t-1}$, comp_legrts_{t-1}, comp_gg_{t-1}, comp_fdmt_{t-1}, comp_mfls_{t-1}

$$GDP_{it} = GDP_{it-1}A_1 + GDP_{it-2}A_2 + \cdots + GDP_{it-p+1}A_{p-1+}GDP_{it-p}A_p + comp - cgov_{it}\beta + u_{it} + e_{it} = 1,..N, t = 1,2 \ldots T_i \quad \text{(PVAR1)} \tag{2}$$

$$comp\ Cgov_{it} = comp_{cgov_{it-1}}A_1 + comp_{cgov_{it-2}}A_2 + \cdots + comp_{cgov_{it-p+1}}A_{p-1+}comp_{cgov_{it-p}}A_p + GDP_{it}\beta + u_{it} + e_{it} = 1,..N, t = 1,2 \ldots T_i \quad \text{(PVAR2)} \quad (3)$$

Applying the same specification, models for aggregated one of the other explanatory variables under investigation.

4 Results

Six models consisting of both disaggregated and composite data for corporate governance, legal systems, good governance, financial development, and macroeconomic fundamentals were estimated determine the linkages between corporate governance and economic growth. Schwarz (SIC) and Akaike (AIC) information criteria provided the basis for selecting the appropriate equations.

4.1.1 Corporate governance and economic growth

Results for PVAR estimates for the contribution of corporate governance on economic growth are reflected in Table 1. The PVAR analysis examines whether previous year corporate governance performance determines of the observed current economic growth. Corporate governance elements in the last 12 months have an insignificant contribution to economic growth.

Table 1: Corporate governance and economic growth PVAR estimate.

	GDP	protection of minority shareholders	Shareholder suits	Director liability	Disclosure & transparency	Efficacy of the board
GDP_{-t-1}	0.149	0.019	-0.005	-0.005	0.016	0.0791
	(0.582)	(0.944)	(0.987)	(0.953)	(0.953)	0.770
Prmsrty_{-t-1}	-0.698	0.461	-0.120	--0.305	0.305	1.7653
	-	-	-		-	-
Sharsit_{-t-1}	-0.912	0.498	-0.067	-0.667	0.315	2.2151
	(0.928)	(0.960)	(0.991)		(0.975)	(0.826)
Dirliab_{-t-1}	0.875	0.703	-0.092	-0.315	1.245	2.1230
	-	(0.703)		(0.975)	-	(0.826)
Disctranpa__{t-1}	0.487	0.194	-0.920	-0.164	0.164	-0.8197
	(0.976)	(0.990)	(0.995)	(0.992)	(0.992)	(0.958)
Effbrd__{t-1}	-0.494	-0.166	-0.014	--0.108	-0.109	0.5120
	(0.783)	(0.926)	(0.994)	(0.952)	(0.952)	(0.775)

GDP_{-t-1} proxies Gross Demostic Product in lag 1, Prmsrty_{-t-1}, proxies protection of minority shareholder in lag 1, Sharsit_{-t-1} is shareholder suit in lag 1, Dirliab_{-t-1} represents director liability, $\text{Disctranpar\_}_{t-1}$ is disclosure and transparency lag 1Effbrd__{t-1} is efficacy of the board lag 1. ***, **, * representing significant level at 1%; 5% and 10%respectively.

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4.1.2 Corporate governance and legal systems impact on economic growth

PVAR estimates of composite corporate governance and legal systems and economic growth results are presented in Table 2. The composite corporate governance effect coefficient was found to be 2.867 with p=0.008, < 0.05 leading the study to reject H0 that β=0, suggesting that composite corporate governance in the last 12 months has significant impact on economic prosperity. It can be inferred that any adjustments in composite corporate governance in the past 12 months have a strong positive significant impact on economic growth. The economic growth effect coefficient is estimated at 0.034 with p=0.566, < 0.05 revealing the failure to reject the H0 that β=0, affirming that economic growth in the past one year no contribution to current economic growth. The property rights effect coefficient is -0.197 with 0.004<0.05, meaning we reject H0 indicating that legal rights in the past 12 months affect growth of the economy. The findings suggest that investor protection and property rights changes together with the effectiveness of the legal framework in the last 12 months period had adverse effect on economic growth.

An impulse response function and variance decomposition of economic growth to aggregated legal system was estimated in addition to the PVAR analysis. Findings of the study with the 95% confidence interval at 5% margin of error reflected that the composite legal system is predicted to make an insignificant contribution on the economic growth for the next 10 years.

Table 2: Aggregated composite corporate governance, legal systems and economic growth PVAR estimates

	GDP	comp_cgov	_legrts	prorit_	judicind_	inver_	efflf_
GDP_{t-1}	0.034	0.009	-0.111	-0.020	0.039	-0.024	0.041
	(0.566)	(0.270)	(0.001)	(0.797)	(0.102)	(0.216)	(0.383)
$comp\_cgov_{t-1}$	2.867	0.123	1.872	-0.853	-1.023	-0.772	-2.623
	(0.008)	(0.470)	(0.004)	(0.388)	(0.023)	(0.011)	(0.001)
$legrts\_{}_{t-1}$	0.239	0.028	0.623	0.074	0.132	0 .130	0.116
	(0.279)	(0.399)	(0.000)	(0.662)	(0.104)	(0.007)	(0.386)
$prorit\_{}_{t-1}$	-0.197	0.029	-0.067	-0.060	-0.066	0.089	0.012
	(0.004)	(0.033)	(0.113)	(0.831)	(0.040)	(0.001)	(0.863)
$judicind\_{}_{t-1}$	-0.249	0.046	0.068	0.711	0.86	0.091	0.809
	(0.393)	(0.227)	(0.639)	(0.011)	(0.000)	(0.206)	(0.000)
$inver\_{}_{t-1}$	0.695	-0.048	0.508	0.703	0.666	0.983	0.517
	(0.945)	(0.371)	(0.242)	(0.140)	(0.016)	(0.000)	(0.287)
$efflf\_{}_{t-1}$	-0.142	-0.027	-0.024	0.055	-0.024	0.113	0.377
	(0.945)	(0.371)	(0.662)	(0.102)	(0.016)	(0.029)	(0.006)

$Aggcomp\_cgov_{t-1}$, proxies composite corporate governance in lag 1, $legrts\_{}_{t-1}$ is legal right in lag 1, $prorit\_{}_{t-1}$ represents property rights lag 1 , $judicind\_{}_{t-1}$ is judicial independence lag 1 and $inver\_{}_{t-1}$ investor rights , $eff\_{}_{t-1}$ proxies the efficiency of the legal framework lag 1, $^{***, **, *}$ represents significant level at 1%, 5%, 10% respectively

4.1.3 Composite corporate governance and good governance impact on economic growth

Table 3 presents results for an estimation PVAR composite good governance practices on economic growth. The results reveal that aggregated composite corporate governance lag 1 effect coefficient of 1.116 with p=0.009, < 0.05 rejecting the H0 that β=0, meaning that composite corporate governance in the last one-year period has a positive significant effect on current economic growth. The government effectiveness lag 1 effect coefficient is 0.121 with p=0.001, < 0.05, leading us to rejecting the H0 that β=0, meaning that changes in effectiveness of government in the last 12 months has influence on economic growth. The voice and accountability effect coefficient is -1.335 with a p=0.001 < 0.05 whilst, that of rule of law effect coefficient is 0.057 with p=0.000, <0.05 leading us to accept the alternative hypothesis suggesting that voice and accountability in the last 12 months has a significant strong negative influence on economic growth. The rule of law effect coefficient is -0.057 with a p= 0.000, <0.05 leading us to rejecting the H0, meaning that rule of law in the last 12 months has effect on economic growth.

Economic growth impulse response and variance decomposition of composite good governance as proxied by aggregated elements of rule of law, political stability, voice and accountability and absence of violence/terrorism, government effectiveness, regulatory quality and control of corruption was estimated in addition the PVAR estimations. The findings detected the response of economic growth to one-unit standard shock of composite good governance. The impulse response results show that economic growth will in by 0.02% in the first five years in response to unit change of aggregated corporate governance in the presence a unit change in aggregated good governance, after which in the last five years it will remains constant. The projection at a 95% confidence interval and 5% margin of error predicts that composite corporate governance in the next 10 years will make a negligible contribution to economic growth.

Table 3: corporate governance, good governance and economic growth PVAR estimates

	GDP	comp_cgov	polst_	gvteff_	voiacca_	ctnrcrrpt	rull_	regqty_
GDP_{t-1}	0.078	-0.002	-0.083	-0.019	0.018	-0.014	0.031	0.024
	(0.1740)	(0.769)	(0.002)	(0.657)	(0.007)	(0.587)	(0.200)	(0.235)
$comp\_cgov_{t-1}$	1.116	0.183	-0.866	-1.469	0.107	0.080	1.147	0.465
	(0.009)	(0.133)	(0.002)	(0.000)	(0.105)	(0.001)	(0.000)	(0.005)
$polst_{\_t-1}$	0.040	-0.026	0.384	0.262	-0.028	0.327	0.055	0.042
	(0.694)	(0.205)	(0.010)	(0.016)	(0.181)	(0.001)	(0.403)	(0.476)
$gvteff_{\_t-1}$	0.121	0.020	-0.111	-0.323	0.037	-0.017	0.101	0.193
	(0.001)	(0.213)	(0.189)	(0.003)	(0.081)	(0.210)	(0.080)	(0.000)
$voiacca_{\_t-1}$	-1.335	0.096	2.247	0.361	0.754	0.319	-1.691	1.423
	(0.001)	(0.214)	(0.000)	(0.449)	(0.000)	(0.210)	(0.000)	(0.000)
$ctnrcrrpt_{t-1}$	-0.289	0.082	0.318	0.818	-0.081	0.248	0.129	-0.118
	(0.235)	(0.038)	(0.026)	(0.449)	(0.038)	(0.161)	(0.293)	(0.198)
$rull_{\_t-1}$	-0.057	-0.015	0.030	0.006	-0.001	-0.014	-0.019	0.015
	(0.000)	(0.000)	(0.001)	(0.817)	(0.713)	(0.026)	(0.042)	(0.095)
$regqty_{\_t-1}$	-0.258	-0.076	-0.214	0.671	-0.010	0.017	0.096	0.069
	(0.402)	(0.128)	(0.101)	(0.000)	(0.738)	(0.841)	(0.350)	(0.516)

$GDP_{\_t-1}$ represents Gross Demostic Product in lag 1, $compt\_cgov_{t-1}$ proxies composite corporate governance lag 1 , $polst_{\_t-1}$ representing political stability lag 1, $gvteff_{\_t-1}$ is government effectiveness lag 1, $voiacca_{\_t-1}$, voice and accountability lag 1, $ctnrcrrpt_{t-1}$ is control for corruption lag 1, $rull_{\_t-1}$ is rule of law lag 1 , $regqty_{\_t-1}$ is regulation quality lag 1. ***, **, * represents significant level at 1%, 5%, 10% respectively.

4.1.4 Corporate governance and financial development impact on economic growth

Table 4 presents results of PVAR for the estimation composite corporate governance in the presence of financial development and economic growth. Results reveals that composite corporate governance affects coefficient is estimated at 2.88 with p=0.120, > 0.05 leading to rejection the H0 that β=0, meaning that change in aggregated composite corporate governance in the previous period in the presence of change in financial development in the past year has an immaterial contribution to economic growth. The financing using the market effect coefficient is estimated at -0.443 with p=0.892, > 0.05 leading the study to reject the H0 that β=0, indicating that financing using the market in the last 12 months does not contribute to contribute to economic growth. The study found evidence of a negative insignificant effect of economic growth due to a one year previous a change in the financing through the market. Regulation of securities lag 1 effect coefficient is at 0.097 with p=0.892, > 0.05, leading to the rejecting the H0 that β=0, meaning that change that took place in regulation of securities of exchange in the past 12 months had no contribution to economic growth.

In addition to the PVAR analysis an impulse economic growth response to aggregated composite corporate governance in the presence of aggregate to financial development. The impulse response indicates the economic growth response to the unit standard change aggregated corporate governance in the presence of a change in unit change in aggregated financial development. The predication indicates in the first five years a unit change in aggregated financial development has positive effect on economic growth and subsequently it retains a negative but stale outcome. The projection at 95% confidence interval at 5% margin of error predicts in the next 10 years financial development will not economic growth.

Table 4: Corporate governance, financial development and economic growth PVAR estimates

	GDP	Aggcompo_cgov	finmkt	regsecsex_
GDP_{t-1}	0.082	0.008	0.199	0.018

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	(0.377)	(0.420)	(0.491)	(0.575)
$\text{Aggcomp\_cgov}_{t-1}$	2.880	0.250	-1.357	-0.989
	(0.120)	(0.420)	(0.059)	(0.166)
finmkt__{t-1}	-0.443	0.084	0.698	0.124
	(0.892)	(0.052)	(0.000)	(0.412)
regsecsex__{t-1}	0.097	0.097	-0.342	0.419
	(0.892)	(0.892)	(0.197)	(0.141)

GDP_{t-1} = Gross domestic product lag 1, comp_cgov_{t-1} is composite corporate governance lag 1, fintmkt__{t-1} is financing through the market lag 1 , regsecsex__{t-1} is regulation of securities of exchange lag 1.*, **, *** represent 1% ,5% and 10% significant level respectfully

4.1.5 Effects of aaggregated composite factors on economic growth

Table 5 shows the results for PVAR estimates for aggregated composite for; corporate governance legal systems, good governance, financial development and macroeconomic fundamentals on economic growth. The estimated composite corporate governance effect coefficient is 4.224 and p=0.000, < 0.05, thus H0 is rejected meaning that a change in aggregated composite corporate governance in the 12 months period has effect on economic growth. This indicates that both past and present aggregated corporate governance are determinants of growth of the economy due to the presence of enabling legal, good governance, financial development and macroeconomic environment.

Table 5: Corporate governance, legal systems, good governance, financial development and macroeconomic fundamentals on economic growth PVAR estimates

	GDP	comp_cgov	comp_legst	com_ggov	com_fdmt	com_mfls
GDP_{t-1}	0.136	-0.003	-0.008	0.029	0.029	-0.149
	(0.000)	(0.324)	(0.251)	(0.010)	(0.010)	(0.000)
$comp\ cpgov_{\ t-1}$	4.224	0.221	0.130	-1.459	-0.029	-0.149
	(0.000)	(0.004)	(0.375)	(0.000)	(0.350)	(0.550)
comp _legst_{t-1}	-0.998	-0.048	0.414	-0.029	-0.029	0.046
	(0.000)	(0.004)	(0.000)	(0.350)	(0.000)	(0.395)
$\text{comp\_ggov}_{\ t-1}$	0.760	0.010	0.297	-0.212	-0.212	-0.635
	(0.000)	(0.634)	(0.000)	(0.000)	(0.000)	(0.000)
comp_fdmt_{t-1}	-0.503	0.070	-0.005	0.472	0.472	-0.090
	(0.000)	(0.000)	(0.005)	(0.000)	(0.035)	(0.144)
$\text{Aggcomp \_mfls}_{t-1}$	-0.142	0.017	-0.154	-0.041	-0.041	0.174
	(0.000)	(0.022)	(0.000)	(0.000)	(0.035)	(0.000)

$\text{GDP}_{\ t-1}$ = gross domestic product lag 1, comp_cgov_{t-1} is composite corporate governance lag 1, $\text{Aggcomp\_legst}_{t-1}$ composite legal systems comp_ggov_{t-1} composite good governance lag 1, comp_fdmt_{t-1} is composite financial development lag 1, comp_mfls_{t-1} is composite macroeconomic fundamentals, ***, **, * representing significant level at 1%, 5%, 10% respectively

Economic growth impulse response to composite elements of; corporate governance, legal systems, good governance, financial development and macroeconomic fundamentals was estimated in addition to the PVAR analysis. Based on the analysis of the impulse response of economic growth has an insignificant response to a one standard unit shock of composite; corporate governance, legal systems, aggregated good governance, financial development and macroeconomic fundamentals. At 95% confidence interval and a 5% margin of error in the next 10 years aggregated corporate governance is predicted to make contribution of 0.01% to economic growth. Based on these predictions corporate governance together with the present and previous conditions of the environment of institutions in Sub Saharan Africa countries are predicted to have no effect on economic growth in the next decade.

4.2 Conclusion and Recommendations

Both the present and past composite corporate governance together with composite elements of legal environment, good governance, financial development and macroeconomic fundamentals leads to economic growth. A continuous reviewing and strengthening corporate governance practices performance every 12 months is necessary to promote economic growth. It is therefore, recommended that countries aiming at promoting growth in their economies focus strengthening aggregated composite of corporate governance, institutional and macroeconomic environment together and not in isolation.

5.1 Policy implications

Economic growth in Sub Saharan African countries can be enhanced through improved effective composite corporate governance countries. An insight into the contribution of corporate governance elements is important for strengthening growth of economies through improved governing of corporations. It is important to understand that that previous one 12 months period behaviour of composite corporate governance is a determinant of future economic growth. It implies that past behaviour of corporate governance has a role to play in shaping g economic productivity of a nation. It follows from the above that a reflection on the past behaviour of corporate governance practices may help to strengthen governance practices in forms that leads to increased productivity and growth of the economy. The findings revealed that both the current and previous one year aggregated corporate governance performance determines economic growth. Government effectiveness has a significant contribution to economic growth. However, the influence of the previous year government effectiveness on economic growth is weak. The observed evidence indicates to policy makers that a change in individual good governance indicators such as control of corruption, political stability, and regulation quality had negligible contribution to significantly cause economic growth, however the composite elements have a notable effect on economic growth.

Judging by this evidence, it can be inferred that, there is a possibility that, the extent of change in financial market was insufficient to contribute to development of sound corporate governance standard that is necessary to source finance from foreign market given the inefficiently functioning financial markets. In simple terms, if financing through the market is secured at high cost it reduces the income and decreases company performance and these results in negative economic growth. If this assumption is holds, then we can conclude that there is need to improve financial development, investor protection within country specific institutional and macroeconomic environment. Futures research may focus on comparative studies between the Sub-Saharan Africa and other economic regions such the Middle East and North Africa amongst many others.

5.2 Theoretical implication

The evidence found in this study are inconsistent to the property rights and agency theory which associate increase corporate governance and legal system with improved performance and economic growth.

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