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Factors Affecting Financial Performance of Firms Listed on the Ghana Stock Exchange

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Abstract

After examining 9 sampled non-financial firms which are listed on the Ghana Stock Exchange, the results show that liquidity which is the ratio of current assets to current liabilities affects financial performance negatively, though not significantly, while leverage significantly affects performance of a firm positively. The Age of the firm also affects performance positively and negatively depending on the time. Also, the size of the firm has a significantly positive effect on financial performance. The study also found that, on average, firms listed on the Ghana Stock Exchange (GSE) make 12.3% returns on equity. Furthermore, firms on the Ghana Stock Exchange make 5.9% return on total assets on average and a highest return of 31%

Keywords: Financial Performance, Liquidity, Leverage, Ghana Stock Exchange, Firm's Size.

Introduction

Firm's financial performance is one of the required necessities for the growth and wellbeing of every firm. Many firms are out of operation because of poor financial performance over the years. Financial performance of a firm measures how well a firm can use its assets in its basic operations to generate revenue. It provides the financial health of an institution over a given period of time and the survival of every firm depends on its financial performance.

The financial performance of listed firms is a common concern of stakeholders including shareholders, debt-holders, investors, employees, management of a firm, government, among others. It is therefore important, if not imperative, for firms to know how they are performing financially at any given point in time, and thereby strengthening ways of improving upon their performance.

This paper has looked at the various factors that affect financial performance of companies listed on the Ghana Stock Exchange. Precisely, the paper considered financial drivers like leverage (debt ratio), liquidity (the current ratio), the ratio of current liabilities to shareholders' equity, the ratio of current assets to total assets, and total liabilities to shareholders' equity ratio and non-financial drivers such as age and size of a firm.

There are several ways of calculating the financial performance of a firm. They include Return on Investment (ROI), Return on Sales (ROS), Return on Assets (ROA), Return on Equity (ROE), among many others. In this paper, we used ROA and ROE as measures of financial performance.

Research Gap

Several papers have considered factors that determine the financial performance of companies from different continents besides Africa. There is no research work known which has looked at the factors that affect the financial performance of firms listed on the Ghana Stock Exchange. This paper intends to fill the gap.

Akomeah et. al (2018); Coleman and Biekpe (2007) have used similar variables in their various papers namely 'The impact of capital structure on firm performance...' and 'The relationship between board size, board composition, CEO duality and firm performance...' respectively, however, this paper is different from theirs in the following ways;

Firstly, this research uses current dataset (from 2010 - 2019) and secondly it uses half-yearly dataset instead of yearly dataset which the precious studies have used. Some researchers have found out that "result has shown more exact by using quarterly data followed by half yearly" (Xu & Banchuenvijit, 2015). Also, in this paper, more explanatory variables (7 independent variables) as compared to the previous studies were used.

Research Objectives

"Performance measures are the life blood of economic units, since without them no decisions can be made" (Sakunasingha, 2006). Also Amalendu (2010) states that the goal of financial performance analysis is to determine the efficiency and performance of management of the firm, as reflected in the financial records and reports.

The motivation for this work is the ability to provide timely information, more so in this period of Covid-19 where a lot of businesses have been affected. Investments decisions must be right with the available right information. This paper will inform investors for sound investment decisions, and management of institutions listed on the GSE, on the factors that affect their performance for good corporate policies. The findings too will help academia for further studies.

Research Question

In this paper, we have looked at the factors (both financial and non-financial) that affect the financial performance of firms listed on the GSE. Return on Equity (ROE) and Return on Assets (ROA), as measures of financial performance were used while we measure how leverage, liquidity, the size of the firm, the age of the firm, the ratio of current liabilities to shareholders' equity, the ratio of current assets to total assets, and current liabilities to total liabilities ratio, as factors, affect the performance of a firm. The precise research question is stated as "What are the factors that affect the financial performance of the firms listed on the Ghana Stock Exchange from the period 2010 to 2019?"

Chapter Outline

The paper is structured as follows: Chapter one gives the introduction including research objectives and research questions. Chapter two provides a literature review. Chapter three looks at the data and the methodology used. Chapter four gives the data analysis and the empirical results, and chapter five draws some conclusions and offers some recommendations.

Literature Review

There has been a number of empirical researches to investigate the various factors that affect the financial performance of firms. According to Tangen (2003), the success of a manufacturing system or company has been evaluated by the use of financial measures. Panagiotis and Konstantinos (2010) posit that regarding financial performance of a firm, researchers have given attention to two areas of interest.

Firstly, some researchers examine how to measure financial performance of firms. There are several financial performance measures. For instance, Amalendu (2010) used ROI and ROA as financial performance measures in his paper, 'Financial Performance of Indian Pharmaceutical Industry'. *Return on sales* (ROS) is defined as the earnings firms make on their sales, *return on equity* (ROE) tells how much shareholders take from their investments and *return on assets* (ROA) gives an idea of an institution's capability to use its assets (Panagiotis and Konstantinos, 2010)

Xu (2015) used ROA and ROE to estimate for financial performance. Panagiotis and Konstantinos (2010) used ROA, ROE, and ROS, as measures of financial performance when they looked at factors which affect the Greek industrial firms' financial performance. Other studies and financial performance measures used are tabulated below;

Table 1
Financial Measures Used in Previous Studies

Author	Year Published	Title of Paper	Financial Performance Measures Used
Skandalis et al	2008	Firms' management competence: does it matter?	Percentage change in annual stock returns, Growth in Profitability and Sales growth.
Agiomirgiannakis et al	2006	Financial factors affecting profitability and employment growth: the case of Greek manufacturing	Return on assets
Thomas and Tonks	1999	Corporate Environmental Policy and Abnormal Stock Price Returns	The difference between risk free rate and stock market returns.
Konar and Cohen	1997	Does the Market Value Environmental Performance?	Return on assets and return on equity.

Hart and Ahuja	1996	Does it pay to be green? An empirical examination of the relationship between emission reduction and firm performance	Return on sales, return on assets, and return on equity.
Opler and Titman	1994	Financial Distress and Corporate Performance.	Stock returns, profitability growth, and growth in sales.

Secondly, other empirical literature have examined how non-financial and financial factors such as managerial efficiency, size, export performance, leverage, capitalization, age, liquidity, and location impact firms' performance and growth (Panagiotis and Konstantinos, 2010).

For example, Binti and Binti (2010) found that current ratio which is a liquidity ratio relates negatively to financial performance of 172 listed Malaysian companies. Also, Eljelly (2004) saw that there is a significantly negative relation between the firm's profitability and its liquidity level, as measured by current ratio when he studied the relationship of liquidity and profitability after investigating 29 companies in Saudi Arabia.

Aquino (2010) also found that a high leverage has a positive relation with firm's profitability when he examined the capital structure of Philippine companies. Panagiotis and Konstantinos (2010) have found that leverage can have either a positive or negative impact on firms' growth and profitability.

According to the trade-off theory (Harris and Raviv 1991), "firms borrow so they would move towards their optimal debt-equity ratios, which would eventually expand their market values". Jensen (1986) supports that when liability increases, profitability decreases which commits managers to be more efficient in their strategies.

Methodology and Data Collection

Data

This research investigates factors that affect the financial performance of firms listed on the Ghana Stock Exchange. The study panel data is half-yearly and it spans from the period 2010 to 2019. Data was collected from the financial statements of nine (9) non-financial firms listed on the Ghana Stock Exchange. ROE and ROA of the sampled firms were calculated as dependent variables. Independent variables such as leverage, liquidity, size of the firm, current liabilities to shareholders' equity ratio, ratio of current assets to total assets, ratio of total liabilities to shareholders' equity, and age of the firm were used to test the relationship between performance and these factors using panel data analysis.

Model

The model follows the regression equation

$$Y = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \dots + \beta_n X_{nit} + \epsilon$$

Where; Y is the dependent variable, β_0 is the Intercept, β_n is coefficient of the regression, X_n is independent variable, and ϵ is the error term.

In this study, the regression model is as follows;

$$\text{Model 1: ROE} = b_0 + b_1 \text{ Liquidity}_{it} + b_2 \text{ Leverage}_{it} + b_3 \text{ Size}_{it} + b_4 \text{ Age}_{it} + b_5 \text{ CL/SE}_{it} + b_6 \text{ CA/TA}_{it} + b_7 \text{ TL/SE}_{it} + e$$

$$\text{Model 2: ROA} = b_0 + b_1 \text{ Liquidity}_{it} + b_2 \text{ Leverage}_{it} + b_3 \text{ Size}_{it} + b_4 \text{ Age}_{it} + b_5 \text{ CL/SE}_{it} + b_6 \text{ CA/TA}_{it} + b_7 \text{ TL/SE}_{it} + e$$

(where i is firm 1 to 9 and t is a time period from 2010 to 2019).

Definition of Variables

- i. **Return on Equity (ROE)** = Net income / shareholders' equity.
- ii. **Return on Assets (ROA)** = Net income / total assets.
- iii. **Liquidity** = total current assets / total current liabilities (current ratio)
- iv. **Leverage** = total liabilities / total assets (debt ratio)
- v. **Size** = the natural log of total assets
- vi. **Age** = log of actual years of the respective individual firm's operations.
- vii. **CL/SE** = total current liabilities / shareholders' equity
- viii. **CA/TA** = total current assets / total assets
- ix. **TL/SE** = total liabilities / shareholders' equity.

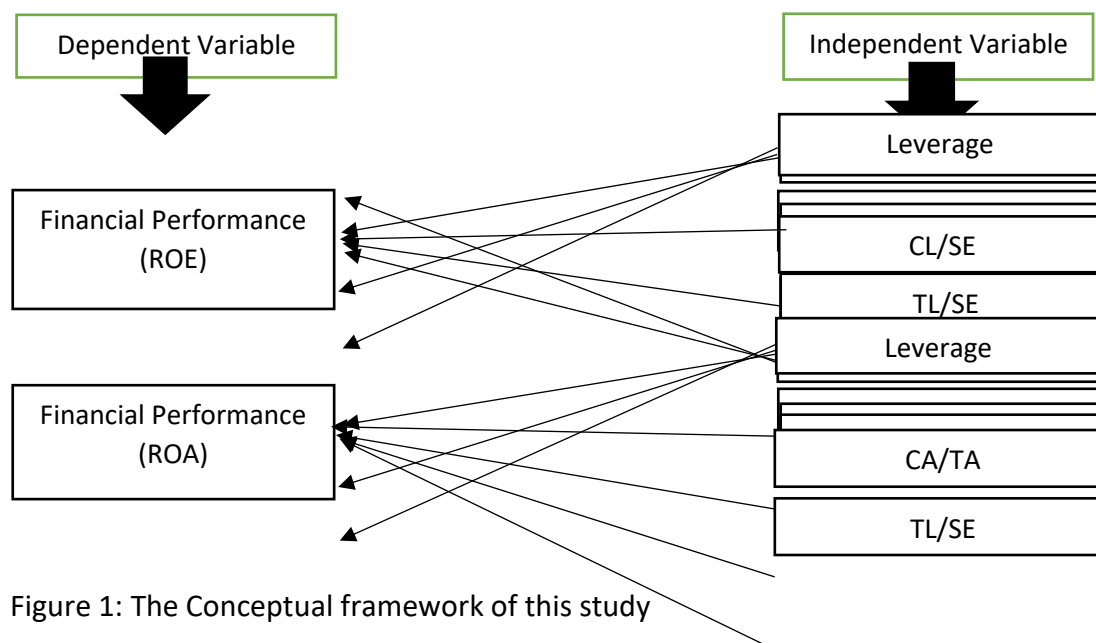


Figure 1: The Conceptual framework of this study

Analysis of Data and Empirical Results

Descriptive Statistics

At this section, we present the summaries of the variables (both independent and dependent) which were used in this study. From table two, we can see the mean (average), standard deviation, minimum and maximum for each of the variables of the firms listed on the Ghana Stock Exchange (GSE) from 2010 to 2019, for a total observation of one hundred and eighty

(180). From the table, the mean value of return on equity (ROE) is 0.123 and a corresponding standard deviation of 0.168. This suggests that on average, firms listed on the Ghana Stock Exchange (GSE) make 12.3% returns on equity.

Also, firms on the GSE make about 5.9% return on total assets and a highest return of 31%. It can also be seen that the mean figure for leverage is about 69.6% which suggests that on the average, more than half of total assets of firms listed on the GSE is financed by debt. The variable, size, has a mean of 7.965 with a corresponding minimum and maximum of 5.726 and 10.052 respectively.

The ratio of current assets to total assets is 0.473 on the average with a corresponding minimum of 0.149 and a maximum of 0.975. The ratio of total debts to shareholders' equity has a mean of 1.661 which suggests that on the average, shareholders' equity of firms listed on the GSE is not enough to finance the total liabilities of the firms.

Table 2
Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROE	180	.123	.168	-.685	.964
ROA	180	.059	.074	-.23	.31
Liquidity	180	1.644	1.543	.191	8.248
Leverage	180	.696	.435	.046	2.112
Age	180	1.591	.258	.778	1.978
Size	180	7.965	1.026	5.726	10.052
CL/SE	180	1.303	1.232	.048	5.348
CA/TA	180	.473	.215	.149	.975
TL/SE	180	1.661	1.237	.048	5.432

Correlation Analysis

From the table 3, the matrix of correlations is presented. From the table, it could be seen that both ROE and ROA have a positive relationship with liquidity with coefficients of 0.137 and 0.387 respectively. This suggests that when a firm is more liquid, it earns more returns on assets as compared to equity. Also, both ROE and ROA have a negative relationship with leverage with coefficients of -0.042 and -0.211 respectively. The relationship between liquidity and leverage is negative with a coefficient of -0.527. This means when one increases, the other decreases. The ratio of current assets to total assets has a strong positive relationship with the age of the firm with a coefficient of 0.682. The ratio of current liabilities to shareholders' equity has a strong positive relationship with the ratio of total liabilities to shareholders' equity with a coefficient of 0.921. This suggests that about 92.1% of total liabilities or total debt is current liabilities. Between the two financial performance measures used in this study, it can be seen from table 3 that ROA has a stronger correlation with the independent variables as compared to ROE.

Table 3

Matrix of Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variables									
(1) ROE	1.000								
(2) ROA	0.786	1.000							
(3)	0.137	0.387	1.000						
Liquidity									
(4)	-	-	-	1.000					
Leverage	0.042	0.211	0.527						
(5) Age	0.126	0.102	0.287	-	1.000				
				0.235					
(6) Size	-	0.032	0.057	-	-	1.000			
	0.041			0.015	0.228				
(7) CL/SE	0.121	-	-	0.250	-	-	1.000		
		0.267	0.469		0.072	0.461			
(8)	0.120	0.014	0.351	-	0.682	-	0.188	1.000	
CA/TA				0.311		0.140			
(9) TL/SE	0.106	-	-	0.408	-	-	0.921	0.071	1.000
		0.316	0.495		0.190	0.285			

Unit Root Tests

From table 4 to table 12, the *Im-Pesaran-Shin* unit root tests for all the variables are presented (both dependent and independent variables).

From table 4, the p- value is 0.0000 which is less than 5% or 0.05 which suggests that the dependent variable, ROE, is stationary.

Table 4

Unit root test for ROE

. xtunitroot ips ROE

Im-Pesaran-Shin unit-root test for ROE

Ho: All panels contain unit roots Number of panels = 9
 Ha: Some panels are stationary Number of periods = 20

AR parameter: Panel-specific Asymptotics: T,N -> Infinity
 Panel means: Included sequentially
 Time trend: Not included

ADF regressions: No lags included

	Statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
t-bar	-3.9720		-2.210	-1.990	-1.890
t-tilde-bar	-2.8584				
Z-t-tilde-bar	-5.7058	0.0000			

From table 5 the p-value is 0.0000 which is less than 0.05 and thus suggests that the dependent variable ROA is also stationary.

Table 5

Unit root test for ROA

. xtunitroot ips ROA

Im-Pesaran-Shin unit-root test for ROA

Ho: All panels contain unit roots	Number of panels =	9
Ha: Some panels are stationary	Number of periods =	20
AR parameter: Panel-specific	Asymptotics: T,N ->	Infinity
Panel means: Included		sequentially
Time trend: Not included		

ADF regressions: No lags included

	Statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
t-bar	-4.6718		-2.210	-1.990	-1.890
t-tilde-bar	-3.0081				
Z-t-tilde-bar	-6.2895	0.0000			

From table 6, the independent variable liquidity is only stationary at first difference with a p-value of 0.0000 which is less than 0.05.

Table 6

Unit root test for Liquidity

. xtunitroot ips dLiquidity

Im-Pesaran-Shin unit-root test for dLiquidity

Ho: All panels contain unit roots	Number of panels =	9
Ha: Some panels are stationary	Number of periods =	19
AR parameter: Panel-specific	Asymptotics: T,N -> Infinity	
Panel means: Included		sequentially
Time trend: Not included		

ADF regressions: No lags included

	Statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
t-bar	-5.7685		-2.210	-1.990	-1.890
t-tilde-bar	-3.2030				
Z-t-tilde-bar	-7.1177	0.0000			

Table 7 shows that the independent variable, leverage, is stationary with a p-value of 0.007 which is less than 0.05

Table 7

Unit root test for Leverage

. xtunitroot ips Leverage

Im-Pesaran-Shin unit-root test for Leverage

Ho: All panels contain unit roots	Number of panels =	9
Ha: Some panels are stationary	Number of periods =	20
AR parameter: Panel-specific	Asymptotics: T,N ->	Infinity
Panel means: Included		sequentially
Time trend: Not included		

ADF regressions: No lags included

	Statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
t-bar	-2.5396		-2.210	-1.990	-1.890
t-tilde-bar	-2.2134				
Z-t-tilde-bar	-3.1909	0.0007			

From table 8, we see that the independent variable, Age, only shows stationarity at the first difference with p-value of 0.0000

Table 8

Unit root test for Age

. xtunitroot ips dAge

Im-Pesaran-Shin unit-root test for dAge

Ho: All panels contain unit roots	Number of panels =	9
Ha: Some panels are stationary	Number of periods =	19
AR parameter: Panel-specific	Asymptotics: T,N ->	Infinity
Panel means: Included		sequentially
Time trend: Not included		

ADF regressions: No lags included

	Statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
t-bar	-69.4064		-2.210	-1.990	-1.890
t-tilde-bar	-4.1015				
Z-t-tilde-bar	-10.6372	0.0000			

Table 9 also shows that the independent variable, Size, is stationary at first difference with p-value of 0.0000 which is less than 0.05.

Table 9

Unit root test for Size

. xtunitroot ips dSize

Im-Pesaran-Shin unit-root test for dSize

Ho: All panels contain unit roots	Number of panels =	9
Ha: Some panels are stationary	Number of periods =	19
AR parameter: Panel-specific	Asymptotics: T,N ->	Infinity
Panel means: Included		sequentially
Time trend: Not included		

ADF regressions: No lags included

	Statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
t-bar	-5.0627		-2.210	-1.990	-1.890
t-tilde-bar	-2.9967				
Z-t-tilde-bar	-6.3100	0.0000			

From table 10, we can also see that the independent variable CL/SE is stationary with a p-value of 0.0071 which is less than 0.05.

Table 10

Unit root test for CL/SE

. xtunitroot ips CLSE

Im-Pesaran-Shin unit-root test for CLSE

Ho: All panels contain unit roots	Number of panels =	9
Ha: Some panels are stationary	Number of periods =	20
AR parameter: Panel-specific	Asymptotics: T,N ->	Infinity
Panel means: Included		sequentially
Time trend: Not included		

ADF regressions: No lags included

	Statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
t-bar	-2.4425		-2.210	-1.990	-1.890
t-tilde-bar	-2.0239				
Z-t-tilde-bar	-2.4522	0.0071			

Table 11 shows that the independent variable CA/TA is stationary with a p-value of 0.0083 which is less than 0.05.

Table 11

Unit root test for CA/TA

. xtunitroot ips CATA

Im-Pesaran-Shin unit-root test for CATA

Ho: All panels contain unit roots

Number of panels = 9

Ha: Some panels are stationary

Number of periods = 20

AR parameter: Panel-specific

Asymptotics: T,N -> Infinity

Panel means: Included

sequentially

Time trend: Not included

ADF regressions: No lags included

	Statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
t-bar	-2.3752		-2.210	-1.990	-1.890
t-tilde-bar	-2.0089				
Z-t-tilde-bar	-2.3936	0.0083			

Table 12 also shows that the independent variable, TL/SE, is stationary only at first difference with a p-value of 0.0000 which is less than 0.05.

Table 12

Unit root test for TL/SE

```
. xtunitroot ips dTLSE
```

Im-Pesaran-Shin unit-root test for dTLSE

Ho: All panels contain unit roots	Number of panels =	9
Ha: Some panels are stationary	Number of periods =	19

AR parameter: Panel-specific	Asymptotics: T,N -> Infinity
Panel means: Included	sequentially
Time trend: Not included	

ADF regressions: No lags included

	Statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
t-bar	-5.1329		-2.210	-1.990	-1.890
t-tilde-bar	-2.9672				
Z-t-tilde-bar	-6.1944	0.0000			

Regression results at time t-1

In table 13, the regression results for both one-way and two-way fixed effects and random effects at time t-1 are presented. Whereas the one-way effect does not include time effect, two-way effects assume both time effects and firm or unit-specific effects.

From the table, liquidity which is the ratio of current asset to current liability relates negatively to both financial performance measures – that’s ROE and ROA – for both one-way and two-way fixed effects. This is consistent with previous studies, for instance, Binti and Binti (2010) found that “current ratio which is a liquidity ratio has a negative relation to performance of 172 listed Malaysian firms”. However, the relationship is only significant with ROA for the one-way fixed effect at 5% significance level. Leverage, which in this study is the ratio of total debt to total assets, on the other hand positively relates to firm’s financial performance. This suggests that it is better for firms listed on the Ghana Stock Exchange to keep higher leverage levels. The relationship however is only significant between the variable and ROA for the two-way fixed effects at 10% significance level.

The variable, Age, has a strong positive relationship with both financial performance measures at all significant levels. This suggests that older firms listed on the GSE perform very well financially as compared to newly established firms. As a results of improved customer service, building of customer loyalty, improvement in research and development (R&D), building of new plants, among other factors, older firms can rely on the advantages of economies of scale to perform better financially as compared to newly established companies.

Also, Size has a significant positive relationship with ROA and ROE with coefficient of 0.13 and 0.344 respectively. This means the bigger firms listed on the GSE perform financially better than the smaller firms irrespective of the financial performance measure used. This may be as a results of the advantages of economies of scale.

CL/SE, which is the ratio of current liability to shareholders' equity has a negative relationship with ROA but a positive relationship with ROE. When CL/SE increases, it means the company relies more on debt financing than equity financing. Therefore when CL/SE increases, shareholder's equity decrease relative to current debt thereby making ROE positive. However it has a negative relationship with ROA and therefore demands further investigations.

CA/TA, which is current assets to total assets ratio, positively relate with ROA and ROE, but it has a significant relation only with ROA. This means when firms have higher percentages of their total assets to be current assets, it enhances their financial performance.

The last, but not the least variable, TL/SE, which is the ratio of total liabilities to shareholders' equity has a negative relationship with both ROA and ROE. This suggests that when firms listed on the GSE rely more on debt financing relative to equity financing, they do not perform financially well. However the relationship is not significant except between the variable and ROA at two-way fixed effects.

Table 13
Lagged Explanatory Variable Regression Results

	(1)	(2)	(3)	(4)	(5)	(6)
	ROA_1WAY_FE t-1	ROA_2WAY_FE t-1	ROE_1WAY_FE t-1	ROE_2WAY_FE t-1	ROA_REt -1	ROE_REt -1
L.dLiquidity	-.006** (.002)	-.006 (.004)	-.001 (.013)	-.001 (.006)	-.006 (.005)	-.002 (.013)
L.Leverage	.066 (.048)	.066* (.034)	.123 (.101)	.123 (.096)	-.014 (.016)	.04 (.06)
L.dAge	1.287*** (.372)	1.287*** (.413)	3.56*** (1.351)	3.56*** (1.181)	.745 (.523)	3.106** (1.31)
L.dSize	.13*** (.028)	.13** (.065)	.344** (.141)	.344* (.197)	.169*** (.057)	.357*** (.138)
L.CL/SE	-.008 (.008)	-.008 (.007)	.012 (.023)	.012 (.022)	-.018*** (.005)	0 (.018)
L.CA/TA	.147* (.072)	.147*** (.054)	.209 (.154)	.209 (.13)	.01 (.033)	.127 (.11)
L.dTL/SE	-.02 (.016)	-.02* (.012)	-.027 (.027)	-.027 (.035)	-.013 (.011)	-.02 (.026)
_IID_2		.024 (.032)		-.031 (.09)		
_IID_3		.019 (.044)		.006 (.128)		
_IID_4		.143*** (.03)		.146** (.066)		
_IID_5		.007 (.012)		-.003 (.034)		
_IID_6		-.001 (.019)		-.063 (.07)		
_IID_7		-.031* (.019)		-.043 (.05)		
_IID_8		.136*** (.026)		.226*** (.068)		

_IID_9		-0.01		-0.058		
		(.019)		(.045)		
_cons	-0.058	-0.09*	-0.112	-0.132	.078***	.003
	(.045)	(.046)	(.114)	(.111)	(.023)	(.08)
	162	162	162	162	162	162
Observations						
Pseudo R ²	.z	.z	.z	.z	.z	.z

Standard errors are in parentheses

*** p<.01, ** p<.05, * p<.1

Regression results at time t

At time t, table 14 also shows the regression results. From the table, liquidity has a positive relationship with both performance measures, yet none is significant at time t. Leverage also has a significantly positive effect on both ROA and ROE which is consistent with the results at time t-1. It has a coefficient of 0.094 and 0.168 for ROA and ROE respectively.

The firm's age has a strong negative impact on financial performance. This is the opposite of the results at time t-1 but consistent with theory and other previous studies. For instance, Claudio and Waelchli (2010) found out that "as firms grow older, their profitability seems to decline". This could be as a results of decline in Research and Development activities, cost rise, assets become obsolete, etc.

Again, the size of the firm impacts financial performance positively at time t, though insignificantly. At time t, CA/TA has a significantly positive effect on performance.

Table 14

Explanatory variables at time t Regression results

	(1)	(2)	(3)	(4)	(5)	(6)
	ROA_1WAY	ROA_2WAY	ROE_1WAY	ROE_2WAY	ROA_RE	ROE_RE
	_FE	_FE	_FE	_FE		
dLiquidity	.005	.005	.001	.001	.003	-.001
	(.004)	(.005)	(.013)	(.007)	(.006)	(.013)
Leverage	.094***	.094**	.168*	.168*	-.016	.029
	(.027)	(.041)	(.097)	(.098)	(.015)	(.045)
dAge	-1.55***	-1.55***	-4.417***	-4.417**	-1.637***	-4.181***
	(.392)	(.585)	(1.388)	(1.826)	(.543)	(1.335)
dSize	.017	.017	.058	.058	.032	.051
	(.062)	(.062)	(.146)	(.186)	(.063)	(.148)
L.CL/SE	-.004	-.004	.023	.023	-.017***	-.002
	(.006)	(.006)	(.023)	(.019)	(.005)	(.015)
L.CA/TA	.19**	.19***	.318**	.318**	-.022	.038
	(.069)	(.055)	(.15)	(.123)	(.03)	(.088)
L.dTL/SE	-.017	-.017	-.022	-.022	-.011	-.013
	(.017)	(.011)	(.027)	(.034)	(.011)	(.027)
_IID_2		.094***		.164**		
		(.03)		(.079)		
_IID_3		.023		.041		
		(.039)		(.111)		
_IID_4		.182***		.231***		
		(.037)		(.074)		
_IID_5		.012		.008		
		(.014)		(.035)		
_IID_6		.008		-.03		
		(.02)		(.071)		
_IID_7		-.038*		-.069		

		(.019)		(.05)		
_IID_8		.162***		.281***		
		(.031)		(.071)		
_IID_9		.008		-.016		
		(.022)		(.048)		
_cons	-.079	-.13**	-.145	-.213*	.115***	.116*
	(.044)	(.056)	(.114)	(.117)	(.021)	(.062)
Observations	162	162	162	162	162	162
Pseudo R ²	.z	.z	.z	.z	.z	.z

Standard errors are in parentheses

*** $p < .01$, ** $p < .05$, * $p < .1$

Conclusion and Recommendation

Conclusion

This paper examined the factors that affect financial performance of firms listed on the Ghana Stock Exchange. Dependent variables such as return on equity (ROE) and return on assets (ROA) were used as measures of financial performance while independent variables including liquidity, leverage, firm's age, firm's size, current liabilities to shareholders' equity ratio, current assets to total assets ratio, and total liabilities to shareholders' equity ratio were regressed on the former as the possible factors.

The results after examining the sampled firms, have shown that liquidity affects performance negatively at time t-1 but positively at time t, though not significantly, while leverage affects firm's performance positively at all times.

The Age of the firm also has a significant positive effect on firm's financial performance at time t-1 but negatively impacts performance at time t. Also, firm's size has a significantly positive effect on financial performance at all time.

This study is significant in diverse ways. Firstly, it unveils the key determinants of financial performance of firms listed on the Ghana Stock Exchange which hitherto was not scientifically known - to the best of our knowledge. This in turn will serve as a great source of information for investors and assets managers alike with regards to investment decisions. Secondly, it will inform corporate directors on the best corporate finance policies for their organizations; that's either to use equity financing or debt financing.

Limitation of the Study

The research was limited in a number of ways. They include, limited number of firms sampled, inability to use quarterly data, and inability to capture more independent variables.

Recommendations

We recommend that further studies is done with more exhaustive dataset. Since theory shows that firm's age affect financial performance negatively, investigation needs to be done to know why it is rather the opposite for firms listed on the Ghana Stock Exchange at time t-1.

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