UNIVERSITY OF EDUCATION, WINNEBA

IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF RURAL AND COMMUNITY BANKS; EVIDENCE FROM SELECTED RURAL AND COMMUNITY BANKS IN GHANA.

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DECLARATION

STUDENT DECLARATION

I, Johnson Amanfo Ofori, declare that this project, except for quotations and references contained in published works which have all been identified and duly acknowledged is entirely my original work and it has not been submitted either in part or whole for another degree elsewhere.

Signature………………………………………………….

Date ……………………………………………………..

SUPERVISORS DECLARATION

I hereby declare that the preparation and presentation of the project were supervised following the guidelines on supervision of the long essay laid down by the University of Education, Winneba.

Supervisor: Mr. Samuel Kofi Asiamah

Supervisors Signature…………………………………….

Date…………………………………………………….

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DEDICATION

This work is dedicated to my mother Rose Frimpomaa, Dr. Kwasi Frimpong, Senior Lecturer, Department of Policy Development, School of Governance, GIMPA, and also Madam Constance Appia-Danquah, Headmistress of Chiraa Methodist A Basic School for their support in cash and kind towards my education.

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LIST OF ACRONYMS

BDZE- Board Size

BDCMP-Board Composition

CEODUAL-Chief Executive Officer Duality

LEV- Leverage

BKZE-Bank Size

CAR-Capital Adequacy Ratio

ROE-Return on Equity

ROA-Return on Assets

ORB-Otuasekann Rural Bank

KRB-Kintampo Rural Bank

SRB-South Akim Rural Bank

ARB-Ahantam Rural Bank

ABRB-Abokobi Rural Bank

ATRB-Atwima Kwawoma Rural Bank

AKRB- Akuapem Rural Bank

AMRB-Amanfiman Rural Bank

MRB-Manya Krobo Rural Bank

SFRB-Sefwiman Rural Bank

ABSTRACT

The study investigated the impact of corporate governance on the financial performance of rural and community banks in Ghana. Specifically, this study examined board size, board composition, bank size, leverage and how they affect the banks financial performance. Banks financial performance was measured using return on assets and return on equity. The research used agency theory and resource dependency theory to explain the concept of corporate governance on financial performance of rural and community banks in Ghana. This study adopted a descriptive research design. Quantitative approach was used, primary data were obtained by administering questionnaires to board members of the selected rural and community banks .Secondary sources were also used to obtain data from the banks published annual reports covering three years (2019 to 2021). The study population was 120 rural and community banks in Ghana. The study further used STATA15 to run the data and multiple regression analysis was applied to determine the magnitude of the correlation and extrapolation of financial performance. The analytical results of the study revealed that there was a strong relationship between corporate governance and the rural and community banks in Ghana's financial performance. Also board size was found to positively affect the banks financial performance**.** There was a positive relationship between board composition and the banks financial performance. Furthermore, the study showed that bank size had a positive correlation with the banks financial performance. The study recommended that rural and community banks in Ghana should have board of directors composed of executive and non-executive directors with diversified skills.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In Ghana, agriculture is the largest sector of the economy, contributing around fifty-four (54%) of the country's GDP and providing jobs for over 85% of the population, primarily in smallholder, traditional, and rain-fed. Poverty in Ghana, like in other sub-Saharan African country is predominantly a rural phenomenon, (Ofori, 2009).

Corporate governance issues are exclusively essential in developing economies, since these countries do not have a strong, long-established financial institution infrastructure to deal with corporate governance issues. Corporate governance has become vital topic in developing economies in recent years. Directors, owners, and corporate managers have begun to realize that there are benefits that can accrue from having a good corporate governance structure. Good corporate governance helps to increase share price and makes it easier to obtain capital (McGee, 2009).

In Sub-Saharan Africa Structural Adjustment Programs (SAPs), concerning economic liberalization, controlled economic policy-making in the 1980s and mid-1990s. These comprise the privatization or commercialization of State-owned Enterprises. As soon as the proprietorship of a state owned enterprises is shifted to the private sector through privatization, concerns for investor and consumer security turn into non-convergent and public interests about the performance or conduct of the privatized entity is stated through regulatory policy framework . Okeahalam & Akinboade, 2016).

Banks play crucial role in the rural development of any nation and are seen as significant apparatus for the speedy industrialization of an economy. Economic development and the growth of financial infrastructure go hand in hand. Rural banks play key part in the socioeconomic development of Ghana and are prominent players in the financial sector of the rural economy. Over the past two (2) decades, rural banking has achieved massive quantifiable headway globally. (Mandala, Nawangpalupi & Praktikto, 2012).

The Bank of Ghana's Governor, Addison in 2021, claimed that the introduction of rural and community banking came at a period when farmers and traders, particularly in rural regions, had limited access to bank credit. It was intended to be a distinctive business model in which rural banks flourish via community empowerment, community ownership, and community involvement in governance. Both internal or bank-specific elements and external or macroeconomic factors have impact on the financial performance of RCBs. Yaron et al. (1998) and Zaman (2004) have examined the causes of the improved financial performance of RCBs. Yaron et al . (1998) focused on three active Asian RCBs that have attained leadership in the delivery of financial services to millions of rural households and microenterprises at previously unheard-of levels. On the other hand, Zaman carried out a thorough investigation of the significant financial intermediation strikes undertaken by four Bangladeshi RCBs. Visionary leadership was used by both Zaman (2004) and Yaron et al. (1998) to describe the elements supporting successful financial performance.

Due to its significant impact on national economic development and growth, corporate governance has become a hot topic. One of the main reasons why many well performing organizations fail is lack of effective corporate governance. The mechanism used to manage and control organizations is called corporate governance. It concerns the power of directors and controlling shareholders over minority interests, the rights of employees, the rights of creditors, and other stakeholders. It is a set of connections between firm directors, shareholders, and other stakeholders (Muriithi, 2009). The Bank of Ghana began a financial sector clean-up effort in 2017 and discovered the occurrence of risk systems across several impaired capitals, low asset quality, liquidity issues, and weak governance structures that affected depositors.(Aboagye, 2020).

In the past two (2) decades, many bank failures and collapses have been attributed to poor corporate governance (Blundell-Wignall, Atkinson & Lee, 2008; Srivastav, 2013; Sarkar & Sarkar, 2017). Examples include the collapse of the Baduman Rural Bank and Tano Rural Banks all in the Bono and Ahafo Region of Ghana due to poor corporate governance practices. Research has shown that good corporate governance practices are critical to the success of the organization (Hoskisson, Johnson & Moesel, 1994; Antwi & Binfor, 2013). Banks that practice good corporate governance are imperatively better placed to survive than those that do not. Unlike corporate governance in commercial banks which has been widely studied, that of rural banks has been less explored.

Rural banking operations have faced many challenges over time. Problems include poor corporate governance, low capitalization, poor customer service and non-performing loans are just some of the challenges that have affected the operations of some of these rural banks (Nair & Fissha, 2010; Owusu-Antwi et al., 2014). As of the end of June 30, 2021, there were 145 RCBs in Ghana with a branch network of about 851 and the overall profitability of the rural banking sector was positive and the sector recorded an annual growth of 27.4 per cent in total assets, which amounted to Ghc6.5 million. Advances, deposits and investments also increased by 23.6, 31.2 and 50 percent respectively. Minimum capitalization was raised to Ghc1 million in 2021. There is growing evidence that corporate governance is creating steadiness between economic, social, individual and communal goals while encouraging the efficient use of power and stewardship and at the same time aligning the interest of individuals, corporations and society (Isingoma, 2018).

1.2 Statement of the Problem

A lot of attention has recently been paid to the subject of corporate governance in Ghanaian banks. In spite of the resultant effect of good corporate governance being effective financial performance and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders, very few of the studies are done on the above and most are centered on separating management from the board to ensure that the board is directing and supervising management, separating chairperson from chief executive roles; ensuring that the board has an effective mix of independent and non-independent directors; and establishing the independence of the auditor, integrity of financial reporting, establishing an audit committee of the board. Poor corporate governance structures and practices have been linked to the failures and subpar performance of rural banks over time (Yalley, 2020).

Numerous financial institutions collapsed due to some deficiencies in the governance systems and procedures, which contributed to the current financial situation (Kirkpatrick, 2009; Laeven, 2013).

Studies conducted on corporate governance in financial institutions have been focused on developed economies leaving the area of corporate governance in financial institutions in developing countries less explored (Antwi & Binfor, 2013).

Additionally, commercial banks account for a significant portion of corporate governance studies on Ghana's financial institutions, as opposed to less-examined organizations like rural and community banks (Kyereboah-Coleman & Biekpe, 2008; Darko, Aribi & Uzonwanne, 2015).

Baduman rural bank and Tano rural bank all in Bono and Ahafo Region respectively collapsed mainly due to poor corporate governance structure (Ofori, 2009). It must be noted that the strength of rural and community banks lies in the effective corporate governance structure.

The Bank of Ghana has compelled the management of rural and community banks in Ghana to strictly adhere to the new corporate governance directives. Corporate governance directive for rural and community banks in Ghana, Bank of Ghana Notice No. BG/GOV/SEC/2021/09. Despite the significance of corporate governance in rural banking, little research has been done in this field in the context of Ghana (Amenu, 2022). The study, therefore, attempts to investigate the impact of corporate governance on the financial performance of rural and community banks in Ghana with the empirical study of ten selected rural and community banks in Ghana.

1.3 Objective of the Study

The general objective of this study was to investigate the relationship between corporate governance and the financial performance of rural and community banks in Ghana.

The specific objectives of the study are to:

1. Determine the relationship between board composition and the financial performance of rural and community banks in Ghana.

2. Establish the effect of board size on the financial performance of rural and community banks in Ghana.
3. Examine the effect bank size on the financial performance of selected rural and community banks in Ghana.

1.4 Research Questions

This study addressed issues relating to the following relevant questions emerging within the scope of study problems.

1. Is there a relationship between board composition and the financial performance of rural and community banks in Ghana?
2. Does board size have any impact on the financial performance of rural and community banks in Ghana?
3. To what extent does bank size impact on the financial performance of rural and community banks in Ghana?

1.5 Significance of the Study

The study could be served as foundation for the design of framework for good governance and resource for banking industry in the area of corporate governance.

This piece of work would contribute to the stock of knowledge on the concept of corporate governance for policy makers and could be used as model for promoting good governance.

Finally, the findings of this work could be a stock of knowledge and reference materials to academia, students and future researchers in the discipline of corporate governance due to interest it has generated over the years.

1.6 Scope and Limitations of the Study

The limitation related to the acquisition of information from the rural banks, the oath of secrecy sworn annually makes staff adamant to release operational information to non-staff members. This was addressed by assuring the staff of the fact that the study was strictly for academic purposes and that the information would be used in line with the purpose only.

The inadequacy of resources especially funds made it impossible to sample all the branches of the selected rural and community banks in Ghana. To overcome this challenge, a special criterion was specifically designed to ensure that the data collected was representative enough. The researcher had to combine the exercise with other academic activities at the same time.

Notwithstanding, it is believed that the findings of the study would depict a fair representation of the problems and issues associated with corporate governance in rural and community banks.

1.7 Delimitation of the Study

The study is conducted in the form of a case study and the organizations chosen were ten rural and community banks in Ghana. The study focused only on the banking industry because corporate governance problems and transparency issues are important in the banking sector due to their fundamental role in providing advances to non-financial organizations, transferring the effects of monetary policy and providing steadiness to the economy as a whole. The study, therefore, covers key governance variables which are board composition, board size, CEOduality, leverage and bank size.

The researcher picked respondents from board of all the ten selected rural and community banks in Ghana so as to get results which would be real to the actual different circumstances.

1.8 Organization of the Study

The study is organized into five chapters, the first chapter deals with the general introduction of the study which comprises the statement of the problem, objectives of the study, research questions, and significance of the study, limitation of the study, delimitation of the study and the organization of the study.

The second chapter talked about the literature review, and it described some of the related works that have been done by other researchers. This chapter also described some of the theories supporting the research that was undertaken.

The third chapter explains the research methodology adopted for the study. This includes the research design, research population, sampling technique, sample size, source of data, the instrument for data collection, and method of data collection. Ethical considerations for the research were also discussed in this chapter.

The fourth chapter involved the discussion, analysis and findings of the results obtained in the study. It provided discussions and related key concepts to results obtained from the study. This chapter also provided a detailed explanation based on the topic and objectives. All possible explanations for the various associations and likely relationships between covariates were discussed here as well.

The fifth chapter which is the last chapter mentioned the conclusions and recommendations as well as a summary of the research findings. Recommendations from the viewpoint of the researcher in related areas were provided. References and an appendix were at the tail end of the document study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter begins by looking at the literature that will give considerable information about the impact of corporate governance on the financial performance of rural and community banks, bringing out the interdependence and interrelation of one to the other. It focuses on the review of the relevant literature concerning the research objectives and also explains the relevant themes captured in the research. The purpose of a literature review is to orient the researcher with what is already known about the problem under investigation, to select appropriate research methods previously used by others, to avoid flaws, which may compromise validity and reliability, and also unnecessary replication.

2.1 Theoretical Review

This study adopted agency theory and resource-dependency theory.

2.1.1 Agency Theory

The theory emanated from the work of (Smith, 1776) who pronounced that if a firm is managed by persons who are not the shareholders, then there is a possibility that the managers may not work for the owners' benefit. Agency and agency relationship occurs when the shareholder (principal) engages another individual (the agent) to undertake some assignments on their behalf. If the principal and the agent are utility maximisers, the agent may not perform in the best interests of the shareholders (principal) at all times (Jensen & Meckling, 1976). (Berle & Means, 1932) indicated that there are groups and individuals in an organization who have different risk preferences and their actions differ. The principal invests their funds in a firm and accepts risks to attain financial benefits. However, managers (agents) are risk-averse and focus on maximizing their benefits. Therefore, the risk tolerance of the agent and the principal is not aligned, thus creating agency conflict.

The agency theory of corporate governance was put forward by Alchian and Demsetz (1972) and Jensen and Meckling (1976). They argued that firms can be regarded as a nexus for a set of contracting relationships among individuals, whereas classical economics regards firms as single-product entities with the purpose of maximizing profit. Learmount (2004) suggests that firms can be explained as contracts that are repeatedly negotiated by different individuals wishing to maximize their own profit. Agency theory explains the behavior of a firm from the perspectives of various contracts between different parties. Shareholders who contribute funds for a firm to operate are not regarded as the owners of the firms; they are the risk takers of the firm. In the real world the managers of firms obtain funds from investors who believe the managers have the ability to use the funds efficiently and effectively to generate profits for the firms.

The managers sign contracts that identify the activities they should engage in and specify the way in which profit is allocated between managers and investors. Since it is very difficult to describe and forecast future contingencies, the contracts signed by managers are difficult to implement (Shleifer and Vishny, 1997). Consequently, managers obtain the right to make decisions that go beyond what is stipulated in their contracts. It is human nature to make decisions that suit an individual's own interests; it is no different for managers. They will make decisions that are beneficial for themselves and have scant regard for shareholders' interests. This brings about the principal's problem (Ross, 1973) and the agency problem (Fama and Jensen 1983a, b).

Agency theory describes managers as agents and shareholders as principals. The theory argues that the value of a firm cannot be maximized if appropriate incentives or adequate monitoring are not effective enough to restrain firm managers from using their own discretion to maximize their own benefits. This can be further explained when looked at like this: first, the interests of principals and agents need to be matched to overcome their different preferences regarding firm activity and different attitudes towards risk exposure. Second, since information asymmetry argues that the principal and agent hold different amounts of information (normally the agent has access to more information than the principal), it is difficult and expensive for the principal to monitor the agent's behavior. Jensen and Meckling (1976) identify three agency costs for principals to monitor agent behavior: monitoring management, binding the agent to the principal, and residual losses.

Fligstein and Freeland (1995) argue that the most efficient contract used to govern the principal, agent relationship is determined by agency theory. The establishment of this contract is also the focus of agency theory. A number of issues should be included and clearly specified in the contract such as agent duties, rewards, and the rights of the principal to monitor the agent's performance. The behaviour-oriented contract and the outcome-oriented contract are the two main contracts put in place. The behaviour-oriented contract focuses on using salaries as the main rewards to the agent while various different rewards are given to the agent under outcome-oriented contracts such as commission, stock options, and transfer of property rights. The choice between which of these contracts to use to reward the agent is crucial and key to solution of the agency problem.

Agency theory played an important role in understanding corporate governance in the twentieth century. It contributed significantly to understanding the mechanism involved in the working of firms. Perrow (1986) argues that the importance of incentives and the self-interest in organizational thinking were re-established by agency theory. Furthermore, Eisenhardt (1989) suggests that the main contribution of agency theory lies in the fact that it identifies how to treat information and risk in the operation of a firm. On the other hand, there are quite a few limitations to agency theory. It makes the assumption that human beings are “individualistic” and “self-interested”.

However, Doucouliagos (1994) states that this assumption is not in line with the nature of complexity of human action. Moran and Ghoshal (1996) argue that the assumption made by this theory has a significant and negative impact on human behavior. In other words, the assumption of this theory encourages human beings to be individualistic and self-interested.

Furthermore, agency theory simplifies a firm by confining its participants to two groups: managers and shareholders. The operation of a firm clearly needs to consider the impact of its behavior on different groups of stakeholders. On the one hand, equity investment can be attracted and retained by a firm that is accountable to its shareholders; on the other hand, the interests of other groups of stakeholders also need to be given proper consideration.

The agency theory thus suggests that non-executive directors should be included on the board to monitor the work of managers. The board should also be composed to guarantee independence in decision-making, for instance, including independent directors to mitigate conflict of interest. Studies by (Malik & Makhdoom, 2016) affirmed that a board with independent directors positively.

2.1.2 Agency Theoretical Perspective

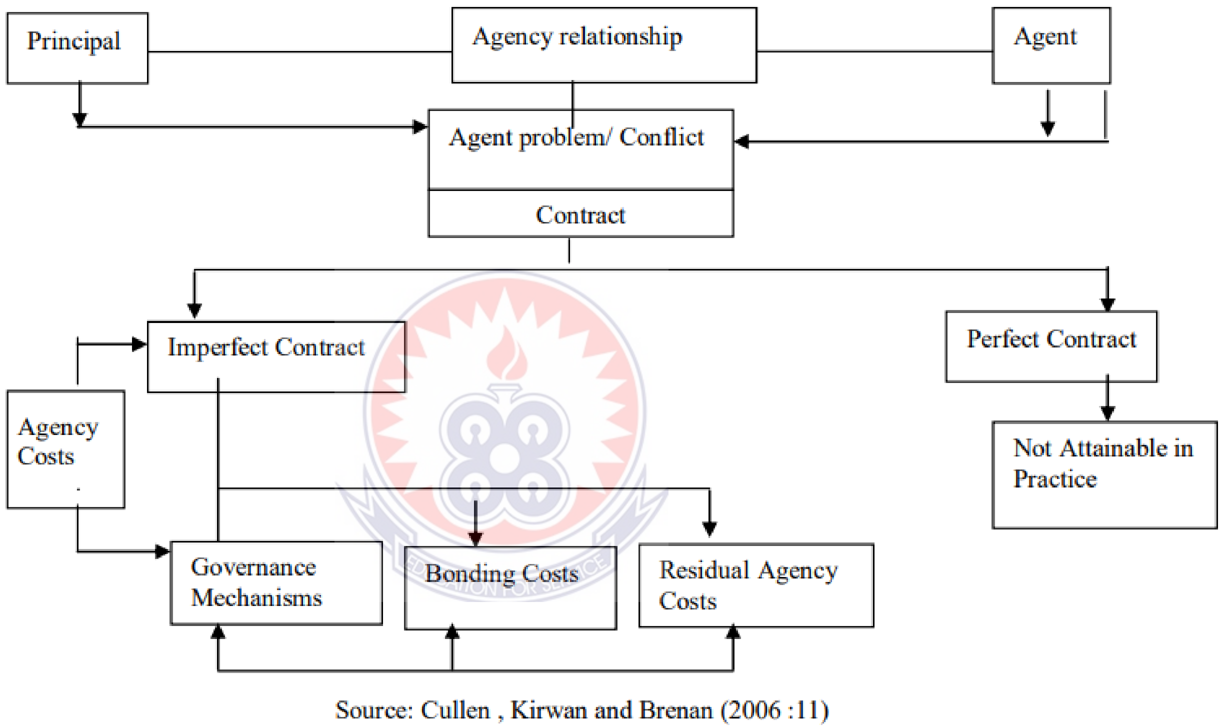

Fig.1: Agency Theoretical Perspective

Source: Author's Conceptualization Construct, 2022

In summary, under the dominant paradigm, the agency relationship between shareholders (principals) and managers (agents) is thwarted by conflict. The agency problem arises primarily from the principal" desire to maximize shareholder wealth and the self-interested agent's tempt to expropriate funds. Contracts partly solve this misalignment of interest. In a complex business environment, contracts covering all eventualities are not attainable. Where contracts fail to achieve completeness, principles rely upon internal and external governance mechanisms to monitor and control the agent. Writing and enforcing contracts and the operation of governance mechanisms give rise to agency costs. Further, the inherent residual loss, arising when the agent does not serve to maximize shareholder wealth, adds to the agency costs. The agency theory, posit that the control function of an organization is primarily exercised by the board of directors. Without board as a governance mechanism, the issues that appear most prominently in the literature are board composition (in particular board size, inside versus outside directors and the separation of CEO and chair positions) and the role and responsibilities of the board (Biserka, 2007). In about research objectives, this study will adopt the agency theory because it focuses on the board of directors as a mechanism which dominates the corporate governance literature. The theory, further explains the association between providers of corporate finances and those entrusted to manage the affairs of the firm. This is also in accordance to the works of Ross (1973); Fama (1980); Sanda, Mukaila & Garba (2003) and Anderson, Becher & Campbell (2004).

2.1.3 Resource-Dependency Theory

The theory argues that a board of a firm is critical because it provides resources to the managers who in turn utilize them to achieve organizational objectives (Hillman & Dalziel, 2003).

Resource dependency theory suggests that units are differentially valuable in dealing with crises emanating from its external environment. Units that control resources that are strategic in terms of managing critical relationships between the firm and its environment achieve power within the organization. Therefore the firm depends disproportionately for its survival and/or success on units that control strategic resources.

Resource Dependency Theory posits that each organization is an open system and, typically, individual organizations do not control all the necessary resources needed for organizational survival and development. Therefore, every organization depends, to some extent, on the external environment to satisfy their resource needs. According to Resource Dependency Theory, when there is instability or uncertainty within the environment, or both, an organization may be exposed to various risks such as problems with resource supply. As a result of this uncertainty or instability, organizational decision makers may employ strategies to reduce the organization's dependence on the environment or to reduce some of the uncertainty (Dickson & Weaver, 1997; Duncan, 1972; Miller, 1987; Pfeffer & Salancik, 2003). In studies that have empirically operationalized RDT to examine the external environment, three constructs are typically considered: munificence (Pfeffer & Salancik, 2003), dynamism, and competition (Dess & Beard, 1984; Kreiser & Marino, 2002; Yeager et al., 2014).

The theory recommends the board to provide support to the executives, for instance, financial, human, and intangible support. The board members who have the expertise and professional training should offer training and mentoring services to the executives to enhance their skills and improve performance. The board members can also link the organization with their network and attract valuable resources to the firm. The theory also recommends that the executives should be allowed to make most of the firms' decisions and some be presented to the board for approval.

The resource-dependency theory thus advocates for the inclusion of professionals in a board of a firm and emphasizes that directors drawn from outside the firm are critical since they bring along best practices applied elsewhere and linkages. The theory also advocates for an increase in board size to accommodate more directors with diverse knowledge and expertise. A firm should thus incorporate in their boards' non-executive directors and professionals with diverse experience and skills. This view is supported by (Cheng et al., 2010), (Ujunwa, 2012), (Francis et al., 2015), and (Mori, 2014). This study investigated the effect of board diversity and board size on the performance of insurance firms in Kenya.

2.2 Conceptual Review

2.2.1 General Overview of Concepts

In Ghana banking industry, research has shown that well-functioning banks promote economic growth. When banks efficiently mobilize and allocate funds, this lowers the cost of capital to firms and accelerates capital accumulation and the growth of productivity. In addition, banks play important roles in governing firms to which they are major creditors and in which they are major equity holders (Caprio, Leaven & Levine, 2004). Thus, if bank managers face sound governance mechanisms, this enhances the likelihood that banks will raise capital inexpensively, allocate society's savings efficiently, and exert sound governance over the firm they fund.

The International financial landscape is changing rapidly; economies and financial systems are undergoing traumatic years. Globalization and technology have continued to speed, the financial field is becoming more open, new products and services are being developed and marketed and regulators everywhere are scrambling to measure the modifications and master the turbulences (Matana, 2008). The international wave of mergers and acquisitions have swept the banking industry as boundaries between financial sectors and products have distorted radically. In this new world, one fact maintains unchanged; the need for countries to have sound resilient banking systems and strong banks with good corporate governance then will use competition to strengthen and upgrade their institutions that will survive in an increasingly open environment (Dwomoh, 2015).

It is imperative to emphasize that effective corporate governance has been identified to be critical to all economic transactions, especially in emerging and transition economies (Kyereboah-Coleman, 2007) In view of the above-mentioned, corporate governance has assumed the center stage for enhanced corporate performance.

2.2.2 Corporate Governance

A plethora of studies exists that explore the effect of corporate governance on corporate performance. The general consensus is that the effect of corporate governance on firm performance is mixed. And the impacts are highly dependent on contextual factors as well as the measures of corporate governance and firm performance (Andries et al., 2018).

The evolution of thinking about corporate governance is traced to Berle & Means (1932) regarding the consequences of separating corporate control and ownership and then to Jensen & Meckling (1976) regarding agency theory. Corporate governance has been expressed as the processes and procedures through which firms are guided and controlled for effective decision-making (Scheller, H. K. (2004).

Corporate governance refers to the structure adopted in controlling and directing organizations (Jiang et al., 2012). It entails the obligations of an organization's board and the association between the directors and the shareholders. Directors perform a crucial role in an organization by monitoring performance, providing resources, and offering advisory services (Ntim, 2015). Good corporate governance is increasingly acknowledged as a significant driver of long-term investment and has become a crucial subject in financial circles. Such governance has become necessary for any organization serious about optimizing its performance. Proper corporate governance practices reduce investors' risks, attract capital investments and improve performance (Wakaisuka-Isingoma et al., 2016). Corporate governance serves as the management that minimizes agency conflicts, increases shareholders' wealth, and boosts investors' confidence, firm goodwill, and investment opportunities (Ngatno & Youlianto, 2021). Bank crises are argued to be a long-term result of a series of bad corporate decisions. Decisions critical for bank survival, including incentives, performance targets, provision of internal controls, and strategy, are all taken by the board of governors. As a result, corporate governance is seen as a vital key to understanding institutional efficiency and productivity. On the international front, cases such as Enron, WorldCom, Pacific Gas and Electricity Company, and Barings Bank are commonly cited. In Ghana, Atobease Rural Bank, DKB Finance, Merchant Bank, and Noble Dream Microfinance are commonly cited examples of the negative repercussions of weak corporate structures. In July 2018, the Bank of Ghana also cited corporate governance practices as the underlying factor for the collapse of seven commercial banks in Ghana between 2016 and 2018. There is a need for a strong corporate structure in the banking sector.

2.2.3 Corporate Governance Mechanism (CGM)

According to Liem (2016), the tenacity of the CGM is to eradicate wastefulness that trunk from unscrupulous acts, help remove the problem of asymmetric knowledge, and protect the interests of the principals through established performance monitoring methods. CGM includes keeping an eye on how businesses, their agents, and the stakeholders they effect act, decide, and follow certain policies. A series of interactions between the shareholders, the BOD, the management, and even the other stakeholders occur, according to Basel Committee on Banking Supervision (2015), giving a framework through which the company's aims are achieved and performance is trailed.

In order to protect their interests from the managers' egocentricity in a corporate setting, shareholders select certain individuals to represent them at the Annual General Meeting (AGM) in the day-to-day management of the establishment. The BOD must operate in the best interest of the shareholders, not its own since the shareholders are the principals and the BOD is the agent in an agency relationship. As a result, they are Trustees in agency arrangements since they have delegated their authority to the management, who run the business on a day-to-day basis. Although the BOD controls the activities of the management, it should also be controlled and monitored by the shareholders in what Famogbiele (2012) described as the ‘guardian of the guardian’s or control of the controllers. The shareholders as per their rights are to exercise control and leadership over the BOD and management, thus establishing checks and balances for efficient and effective accountability. Such rights include appointment (election) and removal of directors and auditors and approval or disapproval of major changes in the business. Most shareholders are however oblivious of these rights (and exercising them) thereby making the BOD superior and more powerful especially where the CEO doubles as the executive chairman (or vice). The duality of the office of the CEO as the executive chairman (or vice) will make the substantive chairman a stooge, hence a ‘rubber stamp’ to every decision made by the ‘powerful’ CEO. This may invariably lead to the siphoning of shareholders’ funds by the supposed 'agents' and ultimately lead to the collapse of firms as was the case that led to the banking tsunamis of 2008/2009 in Nigeria. Indeed, the principles of CG are established on the tripod pillar of accountability, transparency and shareholders' rights according to Famogbiele (2012), the shareholders are consequently expected to assert their rights in this mechanism The BOD, representing shareholders' [or representative of shareholders] interest, oversees the activities of the organizations and should be independent, particularly of the management, since it serves as a bridge between management and owners, other stakeholders and the outside world. Its members should not only be knowledgeable in the firm's line of business but in other business areas such as accounting, business law and/or finance (Famogbiele 2012; Babatunde & Olaniran, 2009). The board size and composition are also major factors that could lead to the efficiency of the board. Having a small board size will enhance speedy decision-making and curb bureaucracy. The BOD should consist more of non-executive members in order to have effective control of the board, reduce the degree of agency problems and monitor the management effectively. To buttress further, Jensen (1999) cited in Babatunde & Olaniran (2009) mentioned that the executive directors would not effectively self-monitor the performance of the CEO since their career is closely tied to the incumbent CEO. Even in the election of the CEO, Famogbiele (2012) emphasized that it should not be a case of putting the square peg in the round hole i.e., the CEO should be experts in their own line of business and not a "one-hat-all.

The BOD and shareholders jointly elected the Audit Committee (AC), a group of auditors that makes recommendations to the board. The committee is responsible for making sure the financial statement conforms to legal, stock exchange, and accounting criteria. They must provide the board with a financial statement that is trustworthy, reputable, and has the best possible information. The nomination and dismissal of the external auditors is handled by this committee, which also monitors and evaluates their report. The AC should, in fact, be responsible to the shareholders, rather than the BOD, in order to assist the shareholders in asserting their rights even over the BOD; in this regard, the AC should be appointed directly – just like the BOD, by the shareholders rather than the BOD.

The management's responsibilities include setting clear goals, influencing corporate strategy and plans, establishing an internal control framework and periodically reviewing it, and putting the BOD's risk and internal control policies into practice.The Management expects the internal audit to be supportive in the monitoring and improvement of risk management and internal control and to collaborate actively with the external auditor to increase total audit coverage. Internal audit will actively supplement management's actions by providing independent and objective assurance of the effectiveness of the organization's processes. Internal Control System (ICS) refers to the systems, methods, and measures established by an organization for its operating unit to promote efficiency, encourage acceptance of managerial procedures and policies, check line validity of managerial data and protect assets. The ultimate purpose of ICS, in essence, is to exercise overall control over the management of operations and risks and to enable management at all levels to obtain reasonable assurance that its objectives are met. The Institute of Chartered Accountants of England and Wales (ICAEW), regarded Internal Control as" the whole system of controls, financial and otherwise, established by the management to carry on the business of the company in an orderly manner, safeguard its assets, and secure, as far as possible, the accuracy and reliability of its records." In the accounting and auditing profession, it is regarded as a process affected by an organization's structure, work and authority flow, people, and management information systems, designed to accomplish specific goals and/or objectives. Ogunbunka (2002), citing the American Institute of Certified Public Accountants, defined IC, as an organization's plans and co-ordinate methods and measures adopted to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed policies and procedures. Ubani (2013), on its own, says it is the process and structure used by the management, under the guidance and supervision of a BOD, to manage the risks inherent in a firm's business which include but are not limited to operational, market, credit, legal, regulatory and compliance risks, among others.

Indeed, IC, in almost every organization majorly, has a two-tiered structure namely, the 1st Tier Control – otherwise known and called "the Line Control" and the 2nd Tier Control - the "Control of Controls" which is otherwise known and called the Internal Audit. While line control is the internal control per se, as it runs through the responsibilities of every unit/ department/branch of the organization's management, measuring and ascertaining the level of compliance with the operational procedures and policies [operational manual] put in place [established] by the management; the control of controls, as the internal audit, on the other hand, ascertains, verifies, and oversees the efficiency, propriety, compliance and adequacy of internal control measures. In other words, 1st tier control measures the level of compliance of every unit of the organization with the operational manual and the 2nd tier control provides an independent opinion of the reasonable assurance of the efficiency and effectiveness of the operational manual, both jointly constituting the Internal Control System – ICS.

2.2.4 Corporate Governance Mechanism

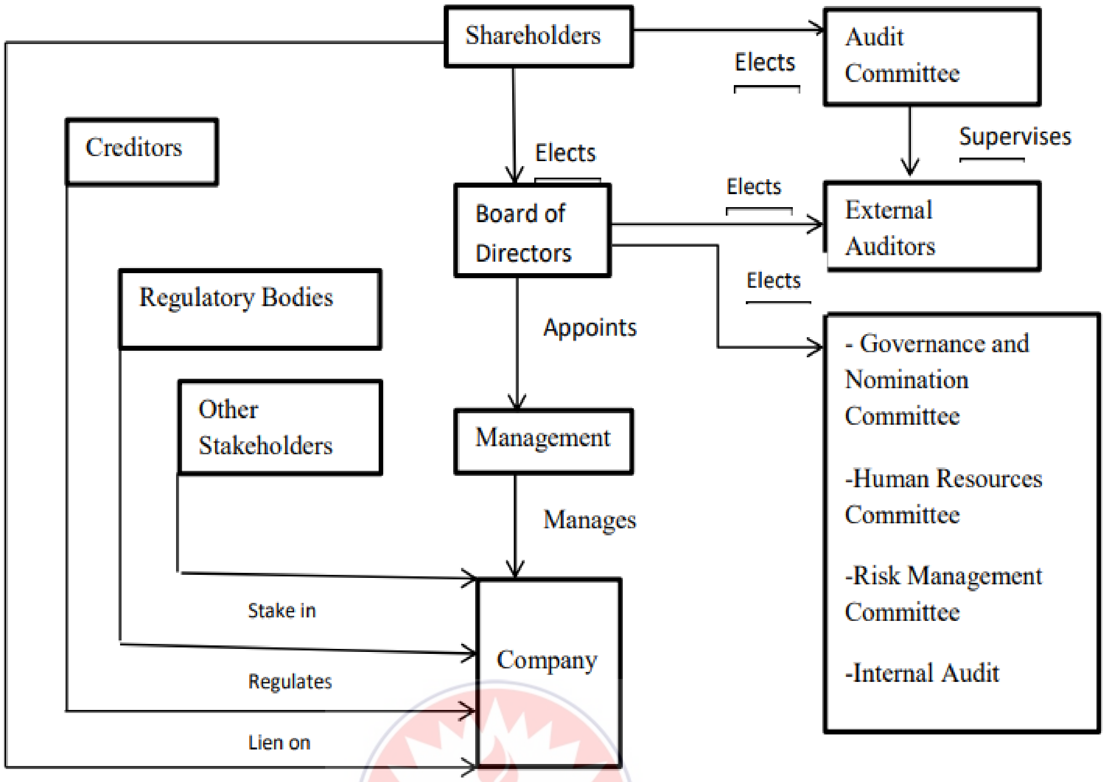

Fig.2: Corporate Governance Mechanism

Source: Author's Conceptualization Construct, 2022

2.2.5 Financial Performance

Financial performance is the accomplishment of the business's financial performance during a specific time period, including the collection and distribution of funds, as measured by capital sufficiency, liquidity, solvency, efficiency, leverage, and profitability. The ability of the business to manage and control its own resources is referred to as financial performance. Corporate managers can use information from cash flow, the balance sheet, profit-loss, and capital change to guide their actions. Understanding fundamental analysis and technical analysis is crucial, and learning finance is required to comprehend how an organization's finances are managed through economics, finance, and accounting. The network level is where the performance study of rural banks is mostly presented (consolidated data for all

RCBs). The financial performance of RCBs can be looked at considering the following and many more:

2.2.6. Asset Quality

One of the best leading indicators of a financial institution's financial success is frequently seen to be the proportion of non-performing loans in its loan portfolio. It is frequently found that lower financial costs and improved profitability are associated with a low percentage of nonperforming loans to the total outstanding loan portfolio. A low non-performing loan portfolio also forces the financial institution to reduce the margin between the interest it pays on deposits and the interest it charges on loans, which is advantageous to its clients.

2.2.7 Return on Assets (ROA)

ROA refers to the amount of net income returned as a percentage of total assets. It can be decomposed as follows: Return on Assets= EBIT / Average Total Assets - in book value.

Return on assets (ROA) is a ratio that measures a company's profitability relative to its total assets. It shows how well (or poorly) a company is using everything it owns - from machinery to vehicles and intellectual property - to earn money.

2.2.8 Return on Equity (ROE)

Net income returned as a percentage of shareholders' equity is referred to as ROE. Return on equity, which shows how much profit a company makes using the money shareholders have invested, gauges a corporation's profitability. For each banking firm’s annual reports, the ROE has been gathered. ROE is computed as Net Income/Equity Shareholder's * 100 and is expressed as a percentage. Before dividends are paid to ordinary stockholders after payments to preferred stockholders, net income is for the entire fiscal year. Preferred shares are not included in shareholder equity.

2.2.9 Solvency

Adequacy of capital is intrinsically critical for banks because of the nature of the business they undertake. The primary business of banks is financial intermediation - that is, using money provided by depositors to make loans to borrowers. Lending is inherently risky because the loans may not be paid back, resulting in financial losses to the bank. Hence, banks are expected to have adequate capital to remain solvent even if some of the loans may result in significant losses. The BoG requires RCBs to maintain a 10 percent capital adequacy ratio.

2.3 Empirical Review

Adams & Mehran (2008) in their studies found that board size positively influences the financial performance of banks in the United States of America based on a sample of 35 of the biggest banks in the US. Their study further revealed banks with large board sizes were positively associated with performance measured using Tobin's Q.

Andres & Valledo (2008) in a related study based on a sample of large commercial banks in some European countries namely, France, United Kingdom, Spain and Italy as well as the United States of America and Canada from the other parts of the world and found that a positive relationship between board size and bank financial performance. Their study further found that having many directors on the board of a bank is positively associated with monitoring and advisory functions, improved governance, as well as increase firm returns. The study, however, placed the maximum number of board members to 19.

Eisenberg, Sundgren & Wells (1998), documented a similar pattern for a sample of small and midsize Finnish firms. Their study also revealed that board size and firm value are negatively correlated. Lipton & Lorsch (1992); Jensen (1993) in their studies also confirmed that; limiting board size is believed to improve firm performance because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision-making of larger groups.

Mak & Kusnadi (2002) also asserted an inverse relationship between board size and firm value. Their observation is based on a comparative study done on the firms listed on Singapore Stock Exchange (SGX) and Kuala Lumpur Stock Exchange (KLSE). Board effect was found in both countries. They further supported Healey (2003) that large groups are less effective than small groups in decision-making.

Beiner, Drobetz, Schmid & Zimmerman (2004) studied the Corporate Governance and firm valuation by using a broad Corporate Governance index and additional variables related to ownership structure, board characteristics, and leverage to provide a comprehensive description of firm-level of Corporate Governance for a broad sample of Swiss firms. The study used Tobin's Q for growth and found a positive relationship between Corporate Governance and growth. An increase in Corporate Governance index by one point caused an increase of the market capitalization by roughly 8.6%, on average, of a company's book asset value. Zheka (2007) studied the effect of Corporate Governance on performance by constructing an overall index of Corporate Governance and shows that it predicts firm level of productivity in Ukraine. The results imply that a one-point increase the index results in around 0.4%-1.9% increase in performance; and a worst to best change predicts a 40% increase in company's performance.

Using data on companies in many African countries, including Ghana, South Africa, Nigeria and Kenya, Kyereboah-Coleman (2007) shows that better governance practices are associated with higher valuations and better operating performance.

Corporate governance system in the rural banking field is a rational model from the western world recommended by the World Bank and implemented by the BoG. It is maintained externally through the main regulatory agencies like the BoG and ARB Apex Bank and internally through the respective boards of directors (Adu-Amoah et al., 2008; Antwi & Binfor, 2013). A key body in an organization that have a major influence on corporate governance is the board.

In Manas & Saravanan (2006) it was concluded that the absence of a relationship between board size and corporate governance exists in Indian banks. In Ghana, it has been identified that small board sizes enhance the performance of MFIs (Kyereboah-Coleman & Nicholas-Biekpe, 2006). While in a study conducted in Nigeria, Sanda, Mukailu & Garba (2005) found that, firm performance is positively related with small size as opposed to large boards.

2.3.1 Corporate Governance and firm performance

Formerly and ordinarily researched empirical studies have provided the spur between corporate governance and firm performance (Bebechuk, Cohen and Ferrell (2004) have shown that well overseen firms have higher firm performance. The main features of corporate governance recognized in these studies include: board size, board composition, and whether the CEO is also the board chairman (Kyereboah- Coleman. 2005 and Kyereboah-Coleman and Biekpe, 2007). There is a common view that larger boards are better for corporate governance performance because they have a range of capability to help make better decisions, and are harder for a powerful CEO to dominate and manipulate. However, recent thinking has learnt towards smaller boards. In Ghana, it has been identified that small board sizes enhances the performance of MFIs, Kyereboa-Coleman and Biekpe. (2007). Mak and Yuanto (2003) echo the above finding in firms listed in Singapore and Malaysia when they found that firm valuation is highest when board has five directors, a number considered relatively small in those markets. In Nigeria study, Sandra et al (2003) found that, firm performance is positively related with small, as opposed to large boards.

2.3.2 Board Composition and firm performance

Directors that are both executive and non-executive make up most boards. Dependent directors are referred to as independent directors by non-executive directors (Shah et al., 2011). For the board to function effectively and for neutral oversight, at least one-third of the directors should be independent. Dependent directors are also important because they have insider knowledge of the organization which is not available to outside directors, but they can misuse this knowledge by transferring the wealth of other stockholders to themselves (Beasly, 1996). A board is composed of members who are not executives of a company, shareholders, and blood relatives or in law of the family (Adegbite, 2012). An independent board is generally composed of members who have no ties to the firm in any way, therefore there is no or minimal chance of having a conflict of interest because independent directors have no material interests in a company. Dalton, Daily, Ellstrand, & Johnson (1998) saw Jacobs (1985) stating that independent directors are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm's outside or independent directors (e.g., CEOs of other firms, former governmental officials, investment bankers, social worker or public figures, major suppliers). Moreover, advice/counsel inside or dependent directors are available to the CEO as a function of their employment with the firm; their appointment to the board is not necessary for the fulfilment of this function.

Staikouras et al. (2007) found that board composition does not affect firm performance although its relationship with performance was found to be positive. These findings were similar to those of Adusei (2010) who found no relationship between board composition and bank performance in Ghana although board composition was found to have a positive effect on bank efficiency. At the same time, Alonso and Gonzalez (2006) studied 66 banks in OECD countries from 1996 to 2003. They established an inverted U-shaped relation between the measures of bank performance (Tobin's Q, ROA, the annual market return of a bank shareholder) and board size which they posit justifies a large board but imposes an efficient limit on size. According to Jensen & Meckling (1976), boards dominated by outsiders or NEDs may help to mitigate the agency problem by monitoring and controlling the opportunistic behavior of management. The results of previous studies that investigated the relationship between board composition and firm performance are inconsistent. Dehaena et al. (2001), Omar (2003) and Rhoades et al. (2000) found that NED has a positive relationship with financial performance. For example, Krivogorsky (2006), Lefort & Urzúa (2008) and Limpaphayom and Connelly (2006) also found a positive relationship between board composition (the proportion of independent directors on the board) and firm performance. Hasnah (2009) showed that Non-Executive Directors are significantly related to firm performance that is measured by ROA. On the other hand, Coles et al. (2001) demonstrated that there is a negative impact of outside directors on firm performance. Erickson et al. (2005) also found a negative relationship between greater board independence and firm value.

However, Bhagat and Black (2002) and De Andres et al. (2005) found no significant relationship between the composition of the board and the value of the firm.

2.3.3 Board Size and Firm Performance

Hermalin & Weisbach (2003) made the case that bigger boards might not be as successful as smaller ones. Boards with an excessive number of members may experience more agency issues as some directors may free-ride. They contended that when a board grows excessively large, it frequently transitions into a more symbolic role rather than serving its initial purpose as a component of the administration. On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards. Furthermore, larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality (Dalton and Dalton, 2005). Expropriation of wealth by the CEO or inside directors is relatively easier with smaller boards since small boards are also associated with a smaller number of outside directors. The few directors on a small board are preoccupied with the decision-making process, leaving less time for monitoring activities.

Vafeas (2000) reported that firms with the smallest boards (minimum of five board members) are better informed about the earnings of the firm and thus can be regarded as having better monitoring abilities. Resonating the above results, Mak & Yuanto (2003) stated that listed firm valuations of Singaporean and Malaysian firms are highest when the board comprises five members. Bennedsen, Kongsted & Nielsen (2004), in their investigation of small and medium-sized closely held Danish corporations, recounted that board size has no effect on performance for a board size of below six members but found a significant negative relationship between the two when the board size increases to seven members or more. Bhagat and Black (2002), found no concrete proof of the relationship between board size and performance. In an attempt to compare the effects of board structure on firm performance between Japanese and Australian firms, Bonn, Yokishawa & Phan (2004) found that board size and performance (measured by market-to-book ratio and return on assets) were negatively correlated for Japanese firms but found no relationship between the two variables for its Australian counterpart. However, contrary to the Japanese firms the ratios of outside directors and female directors to total board numbers have a positive impact in the Australian sample (Bonn, 2004).

Contrary to the above findings, a positive impact on performance was recorded with larger board size by Mak & Li (2001) and Adams & Mehran (2005); however, in examining 147 Singaporean firms from 1995 data, Mak & Li (2001) backing the argument that board structure is endogenously unbendable when the outcomes of their OLS specify that board size, leadership structure and firm size have a positive impact on firm performance but their 2SLS regressions do not support this result. Adams & Mehran (2005) found a positive relationship between board size and performance (measured by Tobin's Q) in the U.S banking industry. Adam and Mehran's results submit that such performance relationships may be industry-specific, designating that larger boards work well for a certain type of firm dependent on their organizational structures. A meta-analysis based on 131 studies by Dalton and Dalton (2005) discovered that larger boards are correlated with higher firm performance. Boards with a large number of directors can be a detriment and costly for the firms to keep. Planning, work coordination, decision-making and holding regular meetings can be challenging with a huge number of board members. Usually, empirical evidence on the relationship between board size and firm performance provides mixed results

2.3.4 Bank Size and Firm Performance

Empirical investigation of the association between bank size firm performances has engaged the attention of researchers recently. Many studies have gotten either week negative relationship or none in any respects (Judge, 2010).

According Nguyen (2011), banks with bigger sizes will oblige and diversify more than banks with small size because large banks have more potential, more plasticity, many product lines, and many cradles to generate revenue such as cash management professional fees, and financial advice.

The bank with higher total capital, deposit and credit or whole quality doesn't continuously mean that there will be a higher profit routine. Money performance of the banks was strongly and absolutely prejudiced by the operational potency and quality management and addition to the Bank size (Tarawneh, 2006)

Another study has examined profitability and marketability of commercial banks by applying data envelopment investigation (DEA) model. The method of data analysis was based on two stages. On the base of this study it was completed large banks performed better with respect to profitability than small size banks, while small size banks have better characteristic of marketability as compare to large bank size (Seiford and Zhu,1999). Researchers also observed the factor that affected the profitability of Banks in USA for the amount of 1985 to 1990 during which the quantity of the banks was found to be negatively related with productivity, the negative relationship of the dimensions, diseconomies of scale (Noulas & Miller 1997).

A study find the some vital issue influence performance of the UAE Muslim and standard national banks kind 1996-2008 using the multivariate analysis, especially ROE and ROA as variable, investigator show the result liquidity and concentration were the foremost vital determinant of typical nation banks. Range of branches and value were the foremost powerful issue of Muslim bank performance (Aburime, 2008).

Researchers investigated the strength of Greek banks against size. They used their study multi criteria methodology to classify Greek banks in step with the come back and performance issue, show the distinction of the bank gain and potency between tiny and huge banks through this study(Spathis, Kosmidou & Doumpos, 2002).

The performance of special kinds of Chinese banks for the amount 1999 and 2006 have been observed. The end result of counsel economic price added and therefore the net interest margin did improved more than a lot of standard measure of profitability on the average quality and equity with economic variable and money ratio square measure imperative with the predictable symbols. The sort of bank is powerful, bank volume is not neither the percentage of foreign own bank listing contains a visible impact(Heffernan& Fu, 2008).

2.4 Conceptual Framework

The conceptual framework of the study include: board size, board composition, CEO Duality leverage, and bank size ‘while the return on assets and return on equity are the proxy for the banks financial performance. The study’s conceptual framework is depicted under **figure 3**

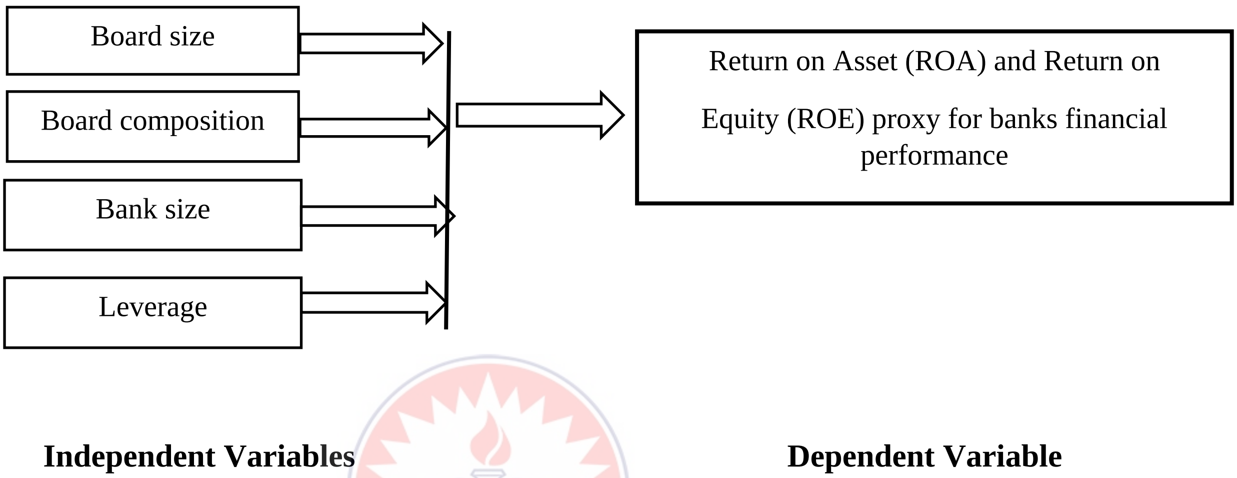

Fig. 3: Conceptual framework

Source: (Author’s Construct for Literature, 2022)

2.5 Overview of the Ghanaian Rural Banking Industry

Over 140 rural banks, collectively known as rural banks or RCBs, operate throughout Ghana's many regions, with the Ashanti, Eastern, Bono, Ahafo, and Central Regions having the highest concentration of rural banks. They are owned by shareholders from the neighborhood in which they conduct business and are incorporated as limited companies under Ghana's Companies Code of 1963 (Act 179). As preference shares, the BoG once owned up to 43% of the equity in rural banks. The 1990s saw the end of this practice. Early on in the history of RCBs, the maximum shareholding percentages for an individual and a corporate organization were 10% and 30%, respectively. They are regulated by the Bank of Ghana even though at some point in time the ARB Apex

Bank played that role and there-by form part of the regulated financial sector in Ghana. The first rural bank was established in 1976 in the Central region of Ghana with paid-up capital of 60,660 old Ghana cedis (old GHc 60,660, or about US$52,000). Between 1980 and 1984, there were about 106 rural banks as many communities wanted to have their own rural bank. Capital contributions were mainly drawn from farmers in the community. A second bank was opened in the following year at Biriwa, a fishing village also in the Central region. By 1980 the number of rural banks had reached 20. Managers and directors of these rural banks founded the Association of Rural Banks (ARB) to promote the exchange of information and to improve the performance of rural banks as a whole. Before the establishment of the first rural bank in 1976, the availability of formal credit in rural communities predominantly made up of small farmers and fishermen was extremely limited. The main sources of credit were moneylenders and traders charging exorbitant interest rates. The Government of Ghana had taken some policy measures to improve access to finance in rural areas. These measures included a requirement that commercial banks lend at least 20 per cent of their portfolio for agricultural uses and the establishment of the Agricultural Development Bank (ADB) in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana.

These banks are the largest providers of formal financial services in rural areas and also represent about half of the total banking outlets in Ghana. The rural banks provided mainly savings and credit services and products. With the increase in the number of rural banks, the number of individuals with bank accounts also increased. RCBs are relatively small financial institutions with an average share capital of GHc136, 526 (US$105,263), average deposits of GHc2.3 million (US$1.77 million), and average assets of GHc3.8 million (US$2.4 million). The values of the three indicators, however, vary significantly. As a network, RCBs have achieved a remarkable level of service delivery and financial performance.

2.5.1. The Banking Regulation for Rural and Community Banks in Ghana

The Bank of Ghana is mandated with the regulatory and supervisory functions of banks in the country. The regulatory and legal framework within which rural banks in Ghana operate consists of:

1. Bank of Ghana Act, 2002 (Act 612),
2. Banking Act, 2004 (Act 673),
3. Companies Code, 1963 (Act 179),
4. Banking (Amendment) Act, 2007 (Act 738),
5. ARB Apex Bank Limited Regulations, 2006 (L.I. 1825).

The roles and responsibilities of the Central Bank as regulator are defined in Act612 and ACT 673. All regulations could take either the form of structural, conduct or prudential.

2.5.2 Apex Body of Rural Banks in Ghana.

The ARB Apex Bank Limited is a “mini”-central bank for Rural & Community Banks (RCBs). The Bank was registered as a public limited liability company in January, 2000. The shareholders are the RCBs. It was granted a banking license in June, 2001 and was admitted to the Bankers Clearing House as the 19th member in August, 2001. It had its certificate to commence business on 1st November, 2001 and commenced banking business on 2nd July, 2002. The activities and operations of the Bank are governed by the ARB Apex Bank Limited Regulations, 2006 (L. I. 1825) which came into effect on 12th December, 2006. The Bank has 9 branch offices throughout the country, which are as follows: Accra, Kumasi, Sunyani, Bolgatanga, Takoradi, Koforidua, Hohoe, and Tamale

2.6 Overview of Corporate Governance in Ghana

In Ghana corporate governance has been gaining roots in response to the initiatives by some stakeholders such as the Ghana Institute of Directors (IoD-Ghana), in collaboration with the Commonwealth Association of corporate governance, to address corporate governance in Ghana. Again, there have also been other initiatives designed to address corporate governance issues in the country. For instance, a study conducted and launched by IoD-Ghana in 2001, pointed out that there is an increasing acceptance of good corporate governance practices by businesses in the country. Notwithstanding the above developments, it must be indicated that more formal corporate governance structures and institutions are relatively not widespread though a number of laws provide for governance structures for companies in Ghana.

These laws include:

1. 1. The Companies Code1963 (Act 179) provides the governance of all the incorporated Companies in Ghana.
2. The Securities Industry Law,1993(PNDCL333) as amended by the Securities Industry (Amendment)Act2000, (Act590), which provides among other things for the Governance of all stock exchanges, investments advisors, securities dealers, and collective investment schemes licensed by the Securities and Exchange Commission (SEC)

According to Dwomoh (2015), the company code streamlines corporate practices in the country, for example, it stipulates a minimum of two directors for a company with no ceiling on the maximum number, whilst the Ghana Stock Exchange (GSE) listing regulations are silent on-board size.

Due to a lack of available literature on the subject, corporate governance practices in Ghanaian organizations have been characterized by a lack of transparency. Adegbite (2012) provides some information on the subject. Adegbite's research focuses on the audit committee, shareholder rights, board accountability, board structure, and board composition. According to his research, Ghanaian listed banks partially and fully adhere to the 2002 Securities and Exchange Commission (SEC) code of best practices (Adegbite, 2012). Corruption was recognized as the key obstruction to proper governance practices. Adegbite also advised that regulatory bodies such as the SEC and the GSE be empowered to better regulate governance practices. His study largely focused on Ghana's investment attractiveness to international investors and thus referred to corruption as a Ghanaian 'socio-cultural problem'. Adegbite, however, failed to identify the specific and direct actions that constituted corruption in governance in that manner. Additionally, Ghana's banking system has evolved since the time of his research as a result of new regulatory legislation such as the Banks and Specialized Deposit-Taking Institutions Act, of 2016. Amendments to the Industry Financial Reporting Standards (IFRS) and the adoption of the Basel II and Basel III frameworks have all reformed the country's banking industry.

Agyemang & Castellini (2015) examined Ghana-specific corporate governance practices in developing economies. It was noted that most institutions in Ghana have little to no distinction between ownership and administration. It was discovered that controlling owners had a significant amount of influence over how their institutions were run. This was attributed to regulators' sloppy application of corporate governance laws. As a result, shareholders are required to actively protect their investments. The findings of Atuahene (2016), who highlighted that Ghanaian bank boards had "less independence due to dominance of government and family-appointed directors who establish the direction of the board meeting to implement their own agenda," are consistent with the findings of Agyemang & Castellini (2015).

Ahorlu (2019) examined the web-based disclosure practices among listed banks in Ghana. A content analysis was employed to analyze the websites of the selected banks for the level of governance disclosures published. Per the study, banks listed in Ghana generally have low levels of governance disclosure as they do not ‘report information related to organizational strategy, stakeholder engagement, governance process, ethical values and integrity (Ahorlu 2019). In contrast, an earlier World Bank ROSC (2010) report found that Ghana was comparatively better than other sub-Saharan African countries with regard to transparency and disclosure. However, there was still a lot lacking in the area of board responsibility.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter provides information on the procedures, design and methods used for the research. The methodology of the research deliberated on the strategies and procedures of the study as well as the type of the data to be used in the study. It also provides a detailed description and evaluation of the methodological approach to the study. It outlines the research design and the research methodology used to answer the research questions regarding corporate governance on the financial performance of rural and community banks in Ghana. The chapter also discusses how the sample was derived, the sample size, research approach, the research instrument, data collection procedures, the research population, the data analysis tools and the ethical considerations.

3.1 Research Design

The research designed succinctly describes the procedures and plans for the research that spans the decisions from broad assumptions to the detailed methods of data collection and analysis. This study will make use of a descriptive research design. The use of this design is to enable the researcher ascertain and describe the characteristics of the variables of interest.

3.2 Research Approach

This study relied on quantitative research approach for a number of reasons. First, the study seeks to present an analysis of the relationship between corporate governance variables and financial performance of rural and community banks in Ghana which can best be achieved using quantitative approach. Second, the study used secondary data extracted from the annual financial statement of the rural banks which are numerical in nature.

3.3 Data Source and Instrumentation

Data collection means gathering information to address the critical questions that had been identified earlier in the study. Many methods are available to gather information, and a wide variety of information sources will be identified. The most important issue related to data collection is selecting the most appropriate information or evidence to answer questions raised in the study (Brinkerhoff et al., 1983; Archer, 1988; Leeds, 1992).

For the purpose of this study, secondary data was used for the analysis. Data used for this study were obtained from the annual financial report of 10 rural and community banks via their website They included : Otuasekan Rural Bank(ORB), Kintanpo Rural Bank(KRB), South Akim Rural Bank(SRB), Abokobi Rural Bank(ABRB), Atwima Kwawoma Rural Bank(ATRB), Akuapem Rural Bank(AKRB), Amanfiman Rural Bank(AMRB),Manyo Krobo Rural Bank(MRB), Sefwiman Rural Bank(SFRB**).**

The study chose a period of three (3) years from 2019 to 2021 Specifically the data was collected from the portion expounding on corporate information, statement of corporate governance as well as the directors' profile. Data on financial performance was collected from final statements such as balance sheets, statements of cash flows, statements of changes in equity and statements of comprehensive incomes provided in the cash flows. Secondary data was easy to collect owing to the ease of availability.

3.4 Population of the Study

The identification of the population for a study is the first step in drawing a sample for measurement of the characteristics of interest. The population is the group of interest to the researcher, the group to whom the researcher would like to generalize the results of the study French, (2006). The target population of the study were the selected rural bank board members in Ghana.

3.5 Sample Technique and Size

The consideration in choosing a sample may be informed by the variability of the elements in the target population, time and resources constraint etc. This represents the individual or target group or number of people of the whole population who responded to the research. This is necessary because it helps save time, reduces cost and provides accurate data, which would not be possible should the whole population be considered.

The entire population which included the 120 rural and community banks since the researcher is largely constrained to the study, the entire population, a sample was therefore a compelling need.

Out of the total of 120 rural and community banks, researcher selected 10 rural and community banks largely informed by convenient sampling. The selection of the 10 rural banks was based on convenience sampling techniques because they were among the best performing banks which also enabled the researcher to have easy access to their annual reports which is the major source of secondary data.

3.6 Data Analysis Plan

This section of the study discusses how the research questions were analyzed and tested. (STATA15) was used for the data analysis, management and documentation. It enabled the researcher to come out with the empirical findings of the research with the view of establishing the governance practices adopted by the banks in Ghana. The data was edited for completeness and consistency after which data extraction was performed. Coding of the data was followed by data entry, after which results were run and presented in tables to explain the research findings in a comprehensive manner. The secondary data was analyzed using panel study framework and regression analysis to determine the relationship between variables of corporate governance and the financial performance of the selected rural and community banks in Ghana. The analysis in this report also relied on excels models. These consisted of a series of spreadsheet-based data input tables that allowed data to be collected and manipulated in a systematic manner. The analyses are presented by using descriptive statistical approach.

3.7 Model Specification

This study employed a modified version of the econometric model of Miyajima et al (2003) as adopted by Coleman and Nicholas- Biekpe (2006). The Econometric model of Miyajima et al (2003) is therefore seen below as;

$$Y_{it} = \beta_o + \beta_1 BDZE_{it} + \beta_2 BDCMP_{it} + \beta_3 BKZE_{it} + \beta_4 LEV_{it} + e_t$$

Where:

Model 1

$$ROE_{it} = \beta_o + \beta_1 BDZE_{it} + \beta_2 BCMP_{it} + \beta_3 BKZE_{it} + \beta_4 LEV_{it} + e_t \ldots \qquad (2)$$

Model 2

$ROA_{it} = \beta_o + \beta_1 BDZE_t + \beta_2 BCMP_t + \beta_3 BKZE_{it\ t} + \beta_4 LEV_t + e_t$-- (4)

Table 3.1: Dependent variables

Variable	Meaning	Measurement
ROA	Return on Assets	The ratio of net profit after tax over total assets
ROE	Return on Equity	The ratio of profit after tax over total equity

Source: (Author's Construct from Data, 2022)

Dependent variables

The study used two dependent variables to measure rural and community banks financial performance. Return on assets and return on equity are the two dependent variables representing the banks financial performance. Return on assets is one of the most used variables in literature to measure firm performance. For instance, Musah (2017) in the study of the effect of capital structure on performance of commercial banks in Ghana, used return on assets as the dependent variable. Similarly, Musah et al. (2019) in their study of the effect of corporate governance and gender diversity of bank performance in Ghana also used return on assets as a measure of bank performance. The use of return on assets as a measure of performance is justified on the basis that it measures the bank's ability to use its assets to generate returns in the form of profit. These studies and many other studies also include return on equity as a measure of bank performance. In effect, the study used the return on equity because it examined how much profits the banks have generated on their equity investments.

Table 3.2 Independent Variables

Variable	**Meaning**	Measurement	Expected effect
BKZE	Bank Size	Net worth of the banks	+/-
BDZE	Board Size	The number of members on the board of the rural bank.	+/-
BDCMP	_Board Composition	The ratio of the outside directors to the dependent directors.	+
LEV	LEVERAGE %	Ratio of total liabilities to total assets	+/-

Source: (Author's Construct from Data, 2022)

Independent variables

The main independent variables for the study are the corporate governance variables which include, board size, board composition, CEO duality, leverage and bank size. The corporate governance variables in the study examined various governance structures that are critical for the efficient running of any organization. The extent to which these variables affect firm or bank performance vary from one study to the other. The study seeks to examine these variables in the context of rural and community banks in Ghana.

3.8 Ethical Consideration

The ethical issues that were considered in the study include introducing the purpose of the study to the management of the selected banks, seeking the consent of the respondents before soliciting the data, assuring respondents of the confidentiality of their responses, and preserving their anonymity. The researcher also assured respondents that their responses would be used for only academic purposes. The researcher obtained an introductory letter from the Department of Business indicating the name of the researcher, and the purpose of the research. The researcher did not collect data on the names of the respondents to assure them of their anonymity.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents the results, analysis, and discussions of the study. The results and findings are presented in a form of tables and other descriptive statistics to make it easier for interpretation. The information ascertained was based on the secondary data from the various rural and community banks financial reports. It also shows the correlation and regression analysis among the variables.

4.1 Descriptive Statistics of the Variables

Table 4.6 reports the descriptive statistics of the dependent and the independent variables of the study as shown below.

Table 4.1: Descriptive Statistics of the Variables

Variable	Observe	Mean	Std. Dev.	Min	Max
Return on Assets(ROA)	30	11.628	9.271	1.63	41.513
Return on Equity(ROE)	30	.013	.007	.001	.027
Leverage	30	8.224	3.314	.678	19.799
Log Bank size	30	18.351	.72	16.956	19.977
Board size	30	9.1	.712	8	10
Board Composition	30	.132	.042	.1	.222

Source: (Author's Construct from Field Data, 2022)

On average, most of the banks surveyed achieved a return on asset of 11.628 with a maximum level of 41 and a minimum of 1.63 respectively. The mean value of the return on equity is estimated up to 0.13, with a score of 0.027 as the maximum. The standard deviation of the return on equity is also estimated at 0.007. According to leverage, the results show for all the three banks at an average of 8.224 and the standard level for a score of 3.314. The bank size level on average is estimated at 18.35. The board size of the banks range between an average of 9, a minimum of 8 and a maximum of 10. The composition of the board is estimated for a score of 0.13 on average. The result above presents the distribution of the variables considered in the study since all of them are continuous factors.

4.1.1 Correlational Matrix Analysis

The correlation matrix table below displays the correlation coefficients for different variables. The matrix depicts the correlation between all the possible pairs of values in the table below.

Table 4.2: Correlational Matrix of the Variables used in the study

Variables	(1)	(2)	(3)	(4)	(5)
(1) ROA	1.000				
(2) Leverage	0.031	1.000			
(3) logBanksize	0.310	0.149	1.000		
(4) board size	0.214	0.402*	-0.198	1.000	
(5) board comp	0.067	-0.075	0.038	0.064	1.000

*** *p<0.01*, ** *p<0.05*, * *p<0.1*

Variables	(1)	(2)	(3)	(4)	(5)
(1) ROE	1.000				
(2) Leverage	0.594*	1.000			
(3) logBanksize	0.384*	0.149	1.000		
(4) board size	0.496*	0.402*	-0.198	1.000	
(5) board comp	0.001	-0.075	0.038	0.064	1.000

*** *p<0.01*, ** *p<0.05*, * *p<0.1*

4.1.2 Correlational Matrix

Using the Pear correlation coefficient, a correlation study was carried out to determine and present the degree of association between the research's variables .It is a powerful tool to summarize a large dataset and to identify and visualize patterns in the given data. This result shows highly correlation between return on assets and return on equity. The result shows that board size is positively correlated to the leverage at 5% with ROA is a dependent. While leverage, bank size and board size are also correlated with ROE as shown above.

Correlation analysis is the statistical tool that can be used to determine the level of association of two variables (Levin & Rubin, 1998). This analysis can be seen as the initial step in statistical modeling to determine the relationship between the dependent and independent variables. Prior to carrying out a multiple regression analysis, a correlation matrix was developed to analyze the relationships between the independent variables as this would assist in developing a prediction multiple model. Correlation analysis helped to detect any chance of multicollinearity. Correlation value of 0 shows that there is no relationship between the dependent and the independent variables. On the other hand, a correlation of ±1.0 means there is a perfect positive or negative relationship (Hair et al., 2010).

4.2 Regression Analysis

4.2.1 Inferential Analysis

In order to determine the impact of the corporate governance structure on the return on assets and the return on equity, this study used three approaches: pooled regression, random effects and fixed effect. Pooled regression is a technique that is conducted for time series data of a cross-section of individuals or firms, in this case for the rural banks. This technique is functioning similarly to the OLS technique The

OLS technique assumes that the error terms of the regression are both homoscedastic and that there exist no correlation. To solve for the issue of heterogeneity among the various rural and community banks under study, the study employed a random effects model.

In addition, the fixed effects model was utilized to account for the time differences that can affect the various independent and dependent variables under study. Board size and board composition were excluded from the random effects model due to issues of multicollinearity. As indicated in table 4.8,9, the fixed effect and random effects models produced similar results as the pooled regression. The difference between the models in terms of the magnitude of change is the coefficients, however, the signs of the coefficients are the same. The pooled effects model and the fixed effects model produced similar results whiles the random effects model had different results

Table 4.3: Regression Analysis on the impact of Corporate Governance on Return on Assets and Return on Equity

	Pool regression	Random effect	Fix effect	Pool regression	Random effect	Fixed effect
VARIABLES	ROE	ROE	ROE	ROA	ROA	ROA
Leverage	0.992**	1.015**	1.255**	-0.000393	-0.000245	-4.60
	(0.409)	(0.417)	(0.571)	(0.000456)	(0.000461)	(0.000524)
Log Bank size	5.395***	5.393***	7.433	0.00420**	0.00503*	0.0129*
	(1.750)	(1.855)	(6.956)	(0.00195)	(0.00265)	(0.00638)
Board size	5.693***	5.650***		0.00380*	0.00368	
	(1.918)	(2.032)		(0.00214)	(0.00296)	
board composition	-3.595	-3.409		0.00266	0.00312	
	(28.99)	(31.01)		(0.0324)	(0.0474)	
Constant	-146.9***	-146.7***	-135.1	-0.0961**	-0.112*	-0.223*
	(39.32)	(41.67)	(127.8)	(0.0439)	(0.0597)	(0.117)
Observations	30	30	30	30	30	30
R-squared	0.589		0.248	0.200		0.185
Number of bank		10	10		10	10

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1**Source: (Author's Construct from Field Data, 2022**

4.2.2 The impact of Corporate Governance on the Return of Assets

The objective of this study is to investigate the impact of corporate governance variables on the return on assets. Table 4.11 below offers a summary of the regression output for three models used to achieve that objective. Based on table 4.8, it can be seen that governance indicators such as board size and board compositions have a positive impact on ROA. Precisely, an increase in the board size causes an increase in ROA by 0.003 whiles an increase in board composition causes an increase in ROA by 0.002. As indicated in table 4.9, the fixed effect and random effects models produced similar results as the pooled regression. The difference between the models is in terms of the magnitude of change in the coefficients, however the signs of the coefficients are the same. A unite creases in the bank size is positively correlated with ROA for the three-model pool regression for 5% of confidence, even for the random effect and the fixed effect too. The bank size has been logged based on the fact that the value of the variable is large.

4.2.3 The impact of Corporate Governance on the Return of Equity

The objective of this study is to investigate the impact of corporate governance variables on the return on equity. Table above offers a summary of the regression output for three models used to achieve that objective. The pooled effects model and the fixed effects model produced similar results whiles the random effects model had different results.. The number in the bracket represents the standard error of the model and the number out of the bracket is the coefficient or the slope of the variation of the factors. According to the bank size, it can shown that the same result is obtained as the correlation is positive between the variable and ROE at 1%. But the effect is not significant for the fixed effect. The board size relation proved that an additional increase of one person on the board increases the ROE by 5.395 holding other factors constant at 1% while 5.650 for the random effect. Board composition on the other hand is not significant. In totality, the results indicated that ROE had 0.589 as a coefficient of determination.

Table 4.4: Breusch and Pagan Lagrangian multiplier test for random effects

	Var	**sd = sqrt(Var)**
ROA	.0000551	.007423
E	.0000352	.0059358
U	.0000249	.0049945
Test: Var(u) = 0		
	chibar2(01) = 0.79	
	Prob > chibar2 = 0.1868	
ROE	85.96045	9.271486
E	41.88396	6.471782
U	2.731792	1.652813
chibar2(01) = 0.44		
	Prob > chibar2 = 0.2540	

The test above shows the result of the Breush and pagan test that made the basis for choosing between the fixed effect and the random effect. The assumption of the test are based on the heterogeneity, meaning no significant differences across unit as the null hypotheses. If the test is significant we reject the null hypotheses meaning we apply the fixed effect. But for the case of those result that showed for the two results, we fail to reject the null hypotheses, meaning for these regression the result that are perfect for the topic and those that are the best are the random effect result according to the regression above. The Prob > chibar2 = 0.2540 and Prob > chibar2

= 0.1868 are not both significant that is why we have chosen the random effect as the best result.

4.3 Discussion of Findings

4.3.1 There is a positive relationship between board size and financial performance of rural and community banks.

From the equation it is shown that a unit increase in board size leads to increase in the financial performance of rural and community banks by a factor of 0.003 per return on assets while an additional increase of one person on the board increases the ROE by 5.395 holding other factors constant at 1% while 5.650 for the random effect. The results depict that there is a positive relationship between board size and the financial performance of rural and community banks in Ghana. This position is premised on the assumption that the larger boards are constituted with members from different backgrounds that brings to the board different skills and professional expertise. This would facilitate better decision making and place the board in a better position to monitor the activities of management. Yawson(2006) posits that because of the diversity of the directors of larger boards it enhances the knowledge base of the companies. According to Pearce and Zahra(1992) larger boards provide better access to their firm's external environment, risk reduction and acquisition of critical organizational resources needed for firm performance. This is because the directors are expected to be an important link between the company and their networks.

However, larger boards may experience agency and free-rider problem. According to Nanka-Bruce (2009) agency problem increases with board size because of more conflicting groups representing their own diverse interests as free-rider also increases as some directors neglect their monitoring and controlling duties to other directors on the board. Gyakari(2009) also argued that larger boards have larger financial cost implication since they consume more monetary and non-pecuniary company resources in the form of remuneration and incentives than the small boards. Several studies suggest that smaller boards are better because they may have little difficulties with communication and coordination. These studies (Hermalin and Weisbach.2003: Yermack. 1999: Eisenberg et al, 1998: Loderer and Peyer, 2002: Mak & Yuanto, 2002) have found negative relationship between board size and firm performance.

However, Aggarwal et al. (2007) found no relationship between board size and firm performance. The question therefore arises as to what is the optimal board size? It is difficult to provide one solution to the question and that would fit all companies. This is because companies have different needs and several considerations are made before appointing directors, for instance, issues of the diversity of the company's operations, skills requirement, shareholding structure, regulatory requirement, and size of the company among others would have to be taken into account. Studies such as Brown and Caylor (2004) suggested a board size of between 6 and 15 members whilst Jensen (1993) argues for 7 or 8 members. Lipton and Lorsch (1992) are in support of board size of between 8 and 9.It would be ideal to have a board size of between 7 and 9 members to ensure efficiency of operations and for an improved performance.

4.3.2 There is a significant positive relationship between board composition and financial performance of rural and community banks in Ghana

From the table above the results shows that there a significant positive correlation between board composition and return ROA .This implies that the greater the number of non-executive directors on the board the higher the ROA. A unit increase in board composition increases financial performance by a factor of 0.002,whilst a unit increase in the board composition would lead to decrease in the rural and community banks financial performance ROE) by a factor of 3.5, but this is not significant.

The findings of the study concur with the findings of Dalton et al., (1998) who states that independent directors are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm's outside or independent directors. Adusei (2010) also found that board composition had a positive effect on bank efficiency. Staikouras et al. (2007) found that board composition does not affect firm performance although its relationship with performance was found to be positive.

4.3.3 The is a positive relationship between bank size and the financial performance of rural and community banks in Ghana

A unite creases in the bank size is positively correlated with ROA for the three-model pool regression at 5% of confidence, even for the random effect and the fixed effect too. The bank size has been logged based on the fact that the value of the variable is large. Accordingly, with the ROE same result is obtained as the correlation is positive between the ‘[,ki variable and the performance of rural and community banks at 1%. But the effect is not significant for the fixed effect.

This is an indication that bigger banks perform better than smaller banks. This is because they have access to more resources and would be in better position to take advantage of investment opportunities compared to smaller banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

In the preceding chapter, the data collected was discussed and analyzed statistically using descriptive statistic. In this chapter, the focus of the researcher is to provide vivid summary of the study, draw conclusion and suggest the necessary recommendations for further studies.

5.1 Summary of Findings

This section summarizes findings about each objective in order to come up with logical conclusion. The summary of the research findings were identified as follows;

The results revealed that there is a positive relationship between board size and the financial performance of rural and community banks in Ghana. This position is premised on the assumption that the larger boards are constituted with members from different backgrounds that brings to the board different skills and professional expertise. Thus, a unit increase in board size leads to increase in financial performance by a factor of 0.003 per ROA while an additional increase of one person on the board increases the ROE by 5.395 holding other factors constant at 1% while 5.650 for the random effect.

The results indicated that board composition has positive relationship with the financial performance of rural and community banks in Ghana. It is supported by the coefficient of determination and the equation that a unit increase in board composition increases financial performance (ROA) of rural and community banks by a factor of 0.002,whilst a unit increase in the board composition would lead to decrease in the rural and community banks financial performance ROE) by a factor of

3.5. It is not significant.

The results showed that bank size has positive relation to the performance of rural and Community banks. A unite crease in the bank size leads to positive correlation with ROA for the three-mod pooled regression at 5% of confidence, even for the random effect and fixed effect too. With the ROE same result is obtained as the correlation is positive between the variables and the performance of banks at 1%, but the effect is not significant for the fixed effect. There is an indication that bigger banks perform better than the smaller ones, since they have access to more resources and would be in better position to take advantage of investment opportunities.

5.2 Conclusion

The study investigated the relationship between corporate governance and the financial performance of rural and community banks in Ghana. The results revealed that generally there is a positive correlation between board size and the financial performance of rural and community banks in Ghana. The study found that various aspects of board size affect the financial performance of rural and community banks in Ghana to a great extent. From the regression analysis, board size was found to positively affect the financial performance of rural and community banks in Ghana.

Board composition and financial performance had a significant positive relationship which describes that board composition should be more of the non-executive directors than the executive directors. This will lessen the problem of agency cost that is in-built in agency relationships that exist between the shareholders and the executive directors. This is in line with the results of Adekunle and Aghedo (2014). In contrast to this, Kajola (2008) found an insignificant relationship between board composition and performance.

Bank size has a statistically significant relationship with performance of rural banks to a large extend, thus, the study discovered that bigger banks perform better than smaller banks, and this is because they have access to more resources and would be in better position to take advantage of investment opportunities compared to smaller banks.

5.3 Suggestion for Further Research

With honesty, this research cannot be considered as all-embracing with regard to the topic; Impact of corporate governance on financial performance of rural and community banks in Ghana. This research is very broad and can be qualified as a basic research, hence, given room for more detailed work. Among the areas that could be researched are:

a. Examining the effect of corporate governance on rural and community banks' capital structure.
b. The effect of corporate governance on performance of rural and community banks CEO.
c. Investigate the impact of corporate governance on rural and community banks size.

It is therefore suggested that future researchers should consider other factors that explore the impact of corporate governance on financial performance of rural and community banks in Ghana.

5.4 Recommendations

The following recommendations have, therefore, been put across to make the research complete and conclusive.

1. It is recommended that rural and community banks in Ghana should have board of directors composed of executive and non-executive directors with diversified skills.
2. Assumption that the larger boards are constituted with members from different backgrounds that brings to the board different skills and professional expertise greater percentage of the board should be independent directors. This would facilitate better decision making and place the board in a better position to monitor the activities of management.
3. Shareholders and investors should be encouraged to buy more of the banks ordinary shares in order to boost the liquidity of the banks hence expand their banks size.
4. Training and capacity building. Rural and community banks in Ghana should periodically organize seminars and training programs for their management, board of directors and shareholders of the banks on corporate governance practices.
5. There should be timely accessibility of financial report. The management of rural and community banks should endeavor to avail the stakeholders of the banks with timely financial reports for decision making in order to minimize agency problem that might arise amongst the board, management and shareholders.

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ANNEX

```
Fixed-effects (within) regression               Number of obs      =        30
Group variable: bank                            Number of groups   =        10

R-sq:                                           Obs per group:
     within  = 0.2477                                          min =         3
     between = 0.4942                                          avg =       3.0
     overall = 0.3903                                          max =         3

                                                F(2,18)            =      2.96
corr(u_i, Xb)  = -0.2725                        Prob > F           =    0.0771
```

ROE	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Leverage	1.255342	.5708715	2.20	0.041	.0559859	2.454699
logBanksize	7.43273	6.956385	1.07	0.299	-7.182093	22.04755
boardsize	0	(omitted)				
board_comp	0	(omitted)				
_cons	-135.0965	127.8003	-1.06	0.304	-403.5951	133.402
sigma_u	5.5357274					
sigma_e	6.4717818					
rho	.42251513	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(9, 18) = 1.69                       Prob > F = 0.1652
```

```
. regress  ROE  Leverage logBanksize  boardsize board_comp
```

Source	SS	df	MS
Model	1467.38068	4	366.845171
Residual	1025.47234	25	41.0188937
Total	2492.85302	29	85.9604491

Number of obs	=	30
F(4, 25)	=	8.94
Prob > F	=	0.0001
R-squared	=	0.5886
Adj R-squared	=	0.5228
Root MSE	=	6.4046

ROE	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Leverage	.9923566	.4087081	2.43	0.023	.1506066	1.834107
logBanksize	5.395206	1.749611	3.08	0.005	1.791814	8.998598
boardsize	5.693423	1.917758	2.97	0.007	1.743727	9.643119
board_comp	-3.595166	28.98919	-0.12	0.902	-63.29951	56.10918
_cons	-146.8793	39.31878	-3.74	0.001	-227.8578	-65.90072

Source	SS	df	MS
Model	.000318927	4	.000079732
Residual	.001279011	25	.00005116
Total	.001597939	29	.000055101

Number of obs	=	30
F(4, 25)	=	1.56
Prob > F	=	0.2162
R-squared	=	0.1996
Adj R-squared	=	0.0715
Root MSE	=	.00715

ROA	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Leverage	-.0003926	.0004564	-0.86	0.398	-.0013327	.0005475
logBanksize	.0041992	.001954	2.15	0.042	.0001749	.0082234
boardsize	.003796	.0021418	1.77	0.089	-.000615	.0082071
board_comp	.0026626	.0323751	0.08	0.935	-.0640151	.0693404
_cons	-.0960674	.0439112	-2.19	0.038	-.1865042	-.0056306