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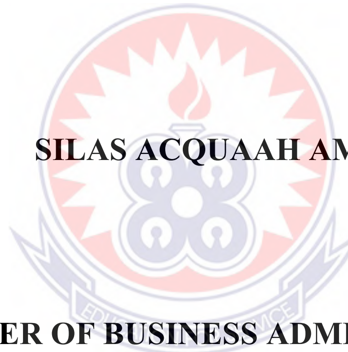
THE RELATONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF LISTED BANKS IN GHANA



SILAS ACQUAAH AMPAH

MASTER OF BUSINESS ADMINISTRATION

2023

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THE RELATONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF LISTED BANKS IN GHANA

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(220020824)

A dissertation in the Department of Applied Finance and Policy Management, School of Business, submitted to the School of Graduate Studies in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (Finance) in the University of Education, Winneba

DECEMBER, 2023

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DECLARATION

Student's Declaration

I, **Silas Acquaah Ampah**, declare that this thesis, with the exception of quotations and references contained in published works which have all been identified and duly acknowledged, is entirely my own original work, and it has not been submitted, either in part or whole, for another degree elsewhere.

Signature……………………………….

Date…………………………………….

Supervisor's Declaration

I hereby declare that the preparation and presentation of this work was supervised in accordance with the guidelines for supervision of thesis/dissertation/project as laid down by the University of Education, Winneba.

Name of Supervisor: Dr. Joseph Ato Forson

Signature……………….………..…....…….

Date……………...…………...….………

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DEDICATION

This work is dedicated to my parents, Mr. John Kenneth Ampah and Mrs. Cecilia Ampah for their support, encouragement, and love.

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I express my sincere gratitude to my supervisor, Dr. Joseph Ato Forson for his professionalism and patiently guiding me through every step of this research work.

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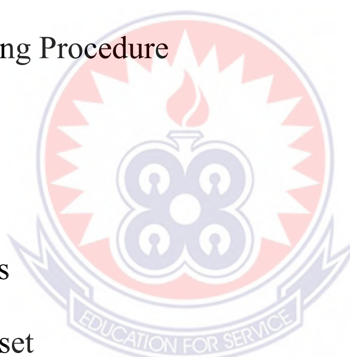

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ABSTRACT

This study was to assess the relationship between corporate governance and firm performance of banks in Ghana. It provides insight into the research questions; What is the relationship between board size and financial performance of banks, the relationship between board gender diversity and financial performance of banks in Ghana and the relationship between board composition and financial performance of banks in Ghana. This research was conducted using a causal research design and a quantitative research methodology. A purposive sampling technique was employed to select a sample of nine (9) listed commercial banks for the study. Financial statement of the listed banks from 2010-2020 was used for data analysis. Four variables were employed in this study with financial performance as the dependent variable and board size, board structure and board gender diversity as independent variables. A panel regression model was utilized to answer the various research questions. The findings indicates that there is a positive significant relationship between board size and financial performance and also having a board with a balanced gender composition positively influences the profitability of banks. The findings also revealed that there is a positive significant connection between board composition and the financial performance of banks. The study recommends that financial institutions should consciously evaluate and, if necessary, optimize their board size to increase effectiveness and efficiency. The study also recommends that financial institutions should actively prioritize and promote gender diversity and also diversified their board by incorporating non-executive directors which will contribute to a more well-rounded and innovative decision-making process within the board.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Ghanaian banking sector has experienced substantial phases of financial deregulations to make the industry very competitive. Banking activities in Ghana commenced in 1896 with the establishment of the British Bank of West Africa, now Standard Chartered Bank Limited, to provide lending and borrowing of money (Buckle, 1999). Although Barclays Bank Ghana Limited was set up in 1917 to dispense banking activities in Ghana, the banking industry was still manipulated by foreign hands because Ghana was bogged down in the quagmire of colonialism (Akomea-Frimpong, 2017). After Ghana gained political independence from the British in 1957, the central bank (Bank of Ghana) was established. The central banks implemented some interventional policies and regulations for prudent control of the cost and direction of finances to enhance economic development.

The establishment of public sector banks, imposition of administrative controls on interest rates, and sectoral allocation of bank credits were notable among these policies. Ghana witness expedient expansion in the banking sector after these policies were implemented after independence (Akomea-Frimpong, 2017). However, the banking sector was plagued with financial crisis from 1983 to 1988. The industry was characterized by financial repression, negative interest rate, and massive public sector borrowing, which are often unproductive (Brownbridge & Gockel, 1998). This crisis resulted in a landmark reform program by the Bank of Ghana, with assistance from the World Bank and IMF is known as the Financial Sector Structural Adjustment Program (FINSAP) to address this problem. The FINSAP resulted in the resuscitating

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of the financial sector and the creation of new institutions such as the Ghana Stock Exchange and Non-Banking Financial Institutions to revive the financial industry. These reforms were successful, albeit some difficulties. In 1989 a New Banking Act was introduced to parallel these reforms. This Act spelled out the capital requirements for local and foreign banks and gave supervisory and legal powers to the Bank of Ghana. These reforms stabilized and stimulated the banking sector. For example, the number of commercial banks increased from 14 in 1994 to 24 commercial banks in 2012 (Ghana Banking Survey, 2012). Other several regulations, acts, and developments have taken place in the banking industry. Over the years, the Banks of Ghana has increased the minimum capital requirements of banks to strengthen further the safety, soundness, and stability of the banking system. For example, in 2008 the minimum capital was GHC 60 million ($ 30 million), GHC 120 million ($ 60 million) in 2017, and currently GHC 400 million by the end of 2018 which the bank of Ghana has estimated that only 19 universal banks could meet this minimum capital requirement (Bank of Ghana, 2018). These regulations and the supervisory role of the Bank of Ghana has increased the assets base of the banking industry and has placed the nation in a situation where it can capitalize on modern banking technology.

The rise in the number of banks and competition among banks has resulted in the banks spending vast sums of money on innovative marketing, developing new products and state of the art technology to keep abreast with time and remain competitive (Akomea-Frimpong, 2017). In Ghana, there are several mechanisms implemented to boost the practice of corporate governance. The regulatory framework for an effective corporate governance practice enshrined in the Companies code 1963 (Act 179), the Security Industry Law, The Ghana Stock Exchange Regulations 1990, (Legislative Instrument (L.I.) 1509), the Securities and Exchange Regulations (2003),

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L.I. 1728, and the Stock Exchange Commission guidelines on best practices in corporate governance (issued and published in 2003). According to Sarpong et al., (2013), these frameworks aid in the regulation of the financial sector and other business sectors as well. According to the Stock Exchange Commission guidelines on best practices in corporate governance (issued and published in 2003), the regulatory framework for effective corporate governance in Ghana has been divided into six sections, namely: The mission, responsibilities, and accountability of the board; Committees of the board; Relationship to shareholders and stakeholders, and the rights of shareholders; Financial affairs and auditing; Disclosures in annual reports, and Code of ethics.

The World Bank assessed Ghana's legal and regulatory framework regarding the observance of standards and codes. The initiative which was to identify weaknesses that may contribute to the financial vulnerability of the country benchmarks the country's legal and regulatory framework of listed firms regarding the Organization of Economic Co-operation and Development (OECD) principles. The report revealed that Ghana lags in some key areas compared to some other countries in the sub-region.

Apart from the numerous regulations and laws governing the operation of companies in Ghana, the Ghana Stock Exchange in 2010, developed and implemented Ghana's code of best practices of Corporate Governance (2010) to regulate all listed firms on the Ghana Stock Exchange. Due to the recent collapse and merger of some giant banks in Ghana in 2017 and 2018, the concept of corporate governance of banks has become crucial in the banking sector of Ghana. Although there are numerous regulations governing banking activities in Ghana, the continuous shrinking of banks

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has become quite worrisome. Also, despite the evidence provided by the numerous studies in Ghana on corporate governance and performance of firms, banks are still saddled with poor corporate governance. This suggests that further evidence is needed on corporate governance and performance in the banking sector.

1.2 Problem Statement

Financial institutions play a primary role in the intermediation of savings and investment, as well as in servicing the economic agents with an efficient payment system (Darmadi, 2011). Failure of financial institutions due to poor governance mechanisms will mean that their impact on the economy could be damaging and destabilizing (Delpiano & Chin-Loy, 2014). The systemic risk from` Financial institutions failures need to be avoided and hence the study of the corporate governance of banks takes priority in any economy, while there is extensive research done on the relationship between corporate governance structure and the performance of financial institutions in the advanced economies (Bektas, 2014; Davis, 2012). The collapse therefore of indigenous Ghanaian universal banks has become a setback to the efforts of promoting indigenous Ghanaians to take control of the Ghanaian economy, thereby, building strong local institutions (Akrong, 2017). The history of bank failures in Ghana is dominated predominantly with local banks with some form of evidence dating as far back the early 2000s (Atuahene, 2016). Arising from high profile bank failures and distresses, coupled with generally poor performance, across the banking sector, the credibility of the existing corporate governance structures has been put into question (Atuahene, 2016).

For instance, the collapse of banks in Ghana in the late 2000s was as a result of inadequate corporate governance practices such as ineffective board practices, insider

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related credit abuses, poor risk appreciation, and internal control failures (Atuahene, 2016). One would have expected that lessons learnt from our history as far back as the late 2000s would have ensured that no local bank collapse again, but unfortunately that has not been the case as the banking sector recently witnessed the collapse of two local indigenous banks in August 2017, and the consolidation of five other local banks, a year later. (Ghana Banking Survey, 2018). Other deposit taking financial institutions managed by indigenous Ghanaians, and other similar microfinance institutions have further added to the crisis in the financial sector, and this is raising serious concerns about the ability of local individuals to manage indigenous banks (Ghana Banking Survey, 2017). Akrong (2017), argues that the numerous cases of corporate failures are an indictment of the existing corporate governance structures. In the aftermath of the financial crises in 2007, OECD (2014) on the corporate governance lessons from the crises concluded that; “the crises were largely due to failures and weaknesses in corporate governance arrangements which could not serve their purpose to safeguard against excessive risk taking by the financial institutions. The financing decision's effect on firm profitability has been described as the most confusing. A plethora of studies on corporate governance has found evidence that good corporate governance enhances firm performance (Abor & Adjasi, 2007; Adusei, 2011; Chung et al., 2003; Frimpong et al. 2015; Hu & Izumida, 2008; Nyarko et al., 2017; Sarpong et al., 2013). However, a few studies have debunked the general idea of corporate governance, enhancing firm performance by reporting a negative relationship between corporate governance and firm performance (Bathala & Rao, 1995; Hutchinson, 2002). Other research by Park and Shin (2003), Prevost et al. (2002) and Young (2003) have reported no relationship between corporate governance and firm performance. Though the majority of studies exist on the

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relationship between corporate governance and the financial performance of firms, little has been done in the banking sector of Ghana. Meanwhile, studies focusing on the banking sector have reported mixed results.

For example, Nyarko et al. (2017) reported that large board size, long-serving CEOs, size of the audit committee, audit committee independence, foreign ownership, institutional ownership, annual general meeting, and dividend policy is positively associated with the financial performance of banks in Ghana. Adusei (2011) reported a positive association with board independence and the bank's efficiency. Aboagye, Agyemang, and Ahali (2013) in a similar study reported mixed results between governance variables and the bank's performance. Recent developments in Ghana"s banking sector has raised alarming concern for the quality of corporate governance practice in the industry. In the middle of 2017, the Bank of Ghana collapsed two giant banks in Ghana. Notwithstanding, in early August of 2018, the Bank of Ghana revoked the license of five banks and consolidated then into „The Consolidated Bank". These were both unlisted and listed banks on the Ghana Stock Exchange. The Bank of Ghana accused the collapsed firms of a range of issues, including poor corporate governance, questionable transactions, and dishonest reporting (Bank of Ghana, 2018). These events have created doubts among investors and corporate players concerning the governance of banks and other financial institutions in Ghana. Despite the numerous studies on corporate governance in Ghana, current development in the banking industry is absurd, suggesting that further evidence is required to elucidate this situation. This study is therefore focused in this direction by providing additional evidence on this corporate governance dilemma which affects banks performance, and to provide evidence that could explain the recent happenings in the Ghanaian banking sector.

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1.3 Purpose of the Study

This study was to assess the relationship between corporate governance and firm performance in Ghana. This study also adds to the literature by providing further evidence on how corporate governance affects the financial performance of banks by utilizing ROA (financial performance) as the primary performance variables. Notwithstanding, this study is timely as it could provide evidence on the reason for the recent turbulence in the Ghanaian banking sector.

1.4 General objectives

This study aimed to examine the relationship between corporate governance and the financial performance of the banking sector in Ghana.

1.4.1 Specific objectives of the study

i. To examine the relationship between board size and financial performance of banks in Ghana.

ii. To investigate the relationship between board gender diversity and financial performance of banks in Ghana.

iii. To examine the relationship between board composition and the financial performance of banks in Ghana.

1.5 Research Questions

The study is guided by the following research questions.

i. What is the relationship between board size and financial performance of banks?

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ii. What is the relationship between board gender diversity and financial performance of banks in Ghana?

iii. What is the relationship between board composition and financial performance of banks in Ghana?

1.6 Significant of the Study

The findings of this study have practical importance for regulatory authorities and policymakers in terms of improving markets. The study also brings into light several issues concerning the relationship between corporate governance and financial performance and will mainly be significant for all stakeholders such as investors, shareholders, and managers of banks in practicing good corporate governance as it is significant for profitability. In general, this study fills the gap in the literature series by capturing the relationship between corporate governance and financial performance of the banking sector in Ghana. The study also provides useful guidelines for the corporate sector, financial institutions, shareholders, depositors and investors as these can help companies to react effectively and efficiently to different economic conditions. Besides, this serves as a good recipe for managers to consider a suitable set of corporate governance models related to in their decision-making process.

1.7 Organization of the Study

The rest of the paper is structured as follows. Chapter 2 containing review of literature both theoretical and empirical on capital structure and firm performance, corporate governance and performance and capital structure and corporate governance. Chapter 3 illustrates the data and methodology. Chapter 4 includes empirical results and discussion. Chapter 5 contains conclusion and findings.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews studies on relevant literature and theories of corporate governance and financial performance. It starts with the overview and the history of the banking sector in Ghana prior to discussing the various theories of capital structure. It further looks at the empirical review where some selected research methodology, findings, and recommendations of some researchers in relation to corporate governance and financial performance are reviewed. The review also covers the conceptual framework.

2.2 Overview and history of the banking industry in Ghana

Banks are financial intermediaries that accept deposits from surplus spending units and channel these in the form of loan products to deficit spending units in the economy. The banking sector is essential for economic development. Banks provide a market for loanable funds where surplus spending unit and deficit spending unit are brought together in well-organized structures. The business of banking started in the then Gold Coast during the colonial era with the aim of providing financial services to the British enterprises and the colonial administration. In 1896, the Bank of the British West Africa (which later became Standard Chartered Bank in 1985) opened its first branch in Accra. The success of the bank attracted other foreign banks to begin operations in the then Gold Coast. The Colonial Bank for instance started its operations in 1918 and later merged with Anglo-Egyptian Bank, the National Bank of South Africa and Barclays Bank and became known as Barclays Bank. The Bank of

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the British West Africa and Barclays Banks were the only banks operating in the Gold Coast during the period, 1920 – 1950. The Ghana Commercial Bank was established in 1953 as the first indigenous bank to reduce the control of the banking sector by the two expatriate banks.

Immediately after independence in 1957, the Bank of Ghana was established to take control over the management of the country‟s currency. By 1974, many state-owned banks and Development Financial Institutions (DFI) had also been set up to enhance the financial sector by providing services, otherwise ignored by the commercial banks. Examples included the National Investment Bank, Agricultural Development Bank, Bank for Housing and Construction, Merchant Bank, the Social Security Bank. The DFIs raised finance through deposit mobilization, government support and foreign loans and were involved in providing commercial and development banking services.

The reforms experienced in the financial sector and the enactment of the banking law in 1989 (PNDC Law 225) saw the operations of a number of locally incorporated banks, including the Meridian (BIAO), The Trust Bank, CAL Merchant Bank, Allied and Metropolitan Bank and Ecobank. There was too much government control in the financial sector after independence. Banks that were set up between the 1960s and the 1970s were either wholly or majority owned by the public sector.

In 1992, however, Government began to privatize some of the state-owned banks and the liberalization of the financial sector led to the entry of a number of foreign banks into the banking industry as well as an increase in the number of domestic banks. The liberalization of the financial sector under the Financial Sector Adjustment Programme (FINSAP) and Financial Sector Strategic Plan (FINSSIP) also brought

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about improved savings, enhanced deposit mobilization, financial deepening, and competition in the banking industry. However, lending rates were high with wider spread between deposit and lending rates. The introduction of the new Banking Act in 2004 also led to the elimination of secondary reserves and adjustments in the minimum capital. The minimum capital was initially increased to GHS 60 million in 2007 and then in 2013 it was increased to GHS 100 million. The new Act also saw the introduction of the Universal banking license, which allows banking to provide various forms of banking services.

Mergers and acquisitions of some banks also emerged largely on account of the surge in the minimum capital requirement with recent examples including Consolidated Bank Ghana, which is merger of Capital Bank, Unibank and Intercontinental Bank, Ecobank and TTB Bank, and HFC Bank and Republic Bank of Trinidad and Tobago. Currently, there are 27 universal banks operating in the country with 16 foreign-owned and 11 Ghanaian-own, with 6 banks holding more than half of the total assets of the sector. Clearly, there are significant implications about the changes in the Ghanaian banking sector for the economy over the years. First of all, the influx of foreign banks, especially from Nigeria, has led to intense competition in Ghana"s banking industry, with respect to size of deposits and the size of market share of the various banks. There are currently seven Nigerian banks operating in Ghana representing about 26% of the total number of banks in the country. The high presence of Nigerian Banks in Ghana has been occasioned by the ECOWAS protocol and the favourable economic environment in Ghana as well as the relatively high minimum capital requirement for banks operating in Nigeria.

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It is however important to recognize that the level of competition in the Ghanaian banking sector has a causal effect on the level of efficiency and we have seen some appreciable level of improvement in service delivery and efficiency across the various banks in the country. Again, the competition in the banking industry has also led to technological innovations with the introduction of automated teller machines (ATMs), e-banking, telephone banking, SMS banking etc. These technological innovations have contributed largely to deepening banking services in Ghana The influx of new banks into the banking sector has also increased the level of offshore funds, which have been brought in to support credit creation in the sector. One important function of foreign banks is the injection of overseas capital into the economy, thus allowing for the generation of more investment funds to spur production and growth. In essence, foreign loans help loosen the constraints on domestic savings and investments.

The recent competition has also changed banks‟ approach to dealing with Small and Medium Enterprises (SMEs). Most banks have now set up SME desks in order to concentrate and provide specialized banking services to SMEs. However, these SME outfits are not really doing anything different from what pertains in corporate banking. Lending requirements applicable to large corporates still apply. Therefore, more work needs to be done in terms of improving banks‟ appreciation of the peculiar challenges confronting SMEs and how to fashion out products targeted at addressing those needs. Banks should also consider providing advisory services to SMEs through their SME departments. Most SMEs may not really require loans but advice on how to manage their financial resources.

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Mergers and acquisitions prompted mainly by the increase in the minimum capital requirement of banks to GHS 100 million have also created larger banks with huge capital base or balance sheet to finance major deals, with implications for increasing GDP growth. Increasing the minimum capital is also useful in the sense that banks are better cushioned against possible losses from credit and liquidity risks. Larger banks are generally more capable of withstanding the shocks confronting industry.

The downside of the changes that have occurred in the banking sector over the years particularly from the early 1990s is the high interest rate spread suggesting high lending rates and low deposit rates. Low deposit rates tend to discourage savings by the public In the presence of low deposit rates of banks relative to the rates of other instruments, investible funds are likely to find their way to other investment vehicles such as government treasury bills and thus reduce savings mobilization. On the other hand, high lending rates do not only impede access to credit but also increases default rate of those who borrow at a high rate. Thus, despite the various reforms and policy initiatives in the Ghanaian banking industry aimed at improving efficiency in the industry in order to curtail interest rates, banks continue to exhibit high interest spreads and the high inflation rates also tend to compound the situation.

It is important for regulators to ensure that the banking sector remains competitive so as to curtail a high interest spread. There is the need to balance the requirements to maintain certain levels of capital adequacy and reserves to promote financial safety against the need to reduce the bank net interest margins. The need to keep inflation within reasonable levels is paramount since the level of inflation tends to feed into bank interest spreads. In this regard, a persistent effort to reduce the current high

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levels of government budget financing will go a long way to reduce inflation and ultimately bank interest spreads.

In 2017, the Bank of Ghana mandated the GCB Bank PLC to acquire the UT Bank and the Capital Bank due to liquidity and solvency challenges to prevent the two banks from collapsing. Liquidity is the ease to convert assets to cash to settle obligations. Solvency is the ability to meet short and long-term obligations of a bank. In 2018, the Bank of Ghana merged the five banks to form the Consolidated Bank Ghana (CBG).

2.3 Overview of banking regulations in Ghana

The Bank of Ghana is mandated to regulate, supervise, and direct the banking and credit systems to ensure the smooth operation of a safe and sound banking system. The Bank‟s mandates are enshrined in the Constitution of Ghana and the Bank of Ghana Act, 2002 (Act 612) as amended. The Bank of Ghana has overall supervisory and regulatory authority in all matters relating to deposit-taking business, non-depositing business, payments as well as clearing and settlement systems. The regulatory and legal framework that governs institutions involved in the above-mentioned activities include, but not limited to the following:

1. Bank of Ghana Act, 2002 (Act 612);
2. Bank of Ghana (Amendment) Act, 2016 (Act 918);
3. Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930);
4. Ghana Deposit Protection Act, 2016 (Act 931);
5. Non-Bank Financial Institutions Act, 2008 (Act 774);
6. Development Finance Institutions Act, 2020 (Act 1032);
7. Payment Systems and Services Act, 2019 (Act 987);

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8. Credit Reporting Act, 2007 (Act 726);

9. Credit Reporting Regulations, 2020 (L.I. 2394);

10. Borrowers and Lenders Act, 2020 (Act 1052);

11. Anti-Money Laundering Act, 2020, (Act 1044);

12. Foreign Exchange Act, 2006 (Act 723);

13. Companies Act, 2019 (Act 992); and

14. Bank of Ghana Notices / Directives / Guidelines/ Circulars.

The Bank of Ghana"s regulatory and supervisory function and requirements are aligned with international standards namely, the Basel Committee on Banking Supervision (BCBS), the global standard setter for the prudential regulation of banks and the International Accounting Standards Board (IASB), a global accounting standard setter. The BCBS issued the Basel Core Principles for Effective Banking Supervision (BCPs) as the global standard for establishing a sound foundation for the regulation, supervision, governance and risk management of banking systems as well as the Basel Capital Accord which ensures that banks hold adequate capital commensurate with their risk profile and sets the global standard for the computation of capital adequacy ratio for international active banks. The passage of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), was largely informed by the BCPs. It is also key to note that following the clean-up exercise on the banking industry that began in 2017, the Bank of Ghana rolled out a number of regulatory interventions in response to lessons learnt from the exercise. These interventions include:

i. Strengthening of minimum paid-up capital requirement.

ii. Capital Requirement Directive

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iii. Risk Management

2.4 Corporate Governance issues in the banking sector of Ghana

Bank of Ghana in December 2018, issued the Corporate Governance Directive (CGD) for Banks and Specialized Deposit-Taking Institutions. The CGD seeks to set a minimum governance standard for banks aimed at strengthening the independence of bank boards for enhanced Board oversight. The Corporate Governance Disclosure Directive (CGDD) was also issued in 2022 to ensure that banks adopt sound governance practices in their operations. The CGDD aims at enhancing transparency, market discipline, and accountability of RFIs to their stakeholders as well as assess the effectiveness of RFIs" corporate governance practices. The CGD has strengthened RFIs governance practices post-implementation. A number of key governance areas covered by the Directive include; Board Qualification and Composition, Role and responsibilities of the Board, BOG intervention in appointments, the nature and operations of board committees, Board practices, Board performance evaluation, independent Directors, Board committees, related party Transactions, tenure of board members and CEOs; annual directors Certification, among others.

2.5 Theoretical review

The theoretical review section covers issues that relate to the relationship that earlier studies have been to establish between the financial performance and the capital structure of firms. A number of empirical studies have identified various determinant of capital structure of firms such as firm level characteristic and macroeconomic variables that affect capital structure and financial performance of firms

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2.5.1 Agency Theory

This theory is regarded as the fundamental base for all other theories related to corporate governance. This theory focuses on the contractual relationship nature between shareholders and management. According to this theory, the shareholder's work as principals and management are considered as the agent of owners (Khan, 2011). Shareholders are interested in increasing their wealth whereas managers are working for shareholders, but their priority is an increase in their compensation not only shareholders' wealth. Thus, a conflict of interest arises, and this cause agency problem under the principal and agent relationship. Agency theory has its origins in the economic theory, which is presented by Adam Smith (1776). First-time separation of ownership to control was discussed by Adam Smith, who proposed that a manager who controls all activities of the firm will not have a keen interest in business as he would invest his own money and pointed out some negligence (Smith et al., 1977). Later, the agency theory was further developed by Jensen and Meckling (1976) who defined agency theory as a contract between owners and management. Moreover, ensuring whether the agent is acting in the principal"s best interest or not. This is based on the grounds of an inherent conflict of interest between the agent and principal (Fama & Jensen, 1983). Moreover, the conflict between management and shareholders may also take place due to the issue of information asymmetry. Fig. 1 elaborates on the agency model. Different researchers and economists categorized agency problems into three types. The first type of problem is identified as the Principal-Agent problem, this problem started with the operation of a large corporation.

Where the shareholders assign the administration of business to managers, but managers are more interested in maximizing their compensation rather than the

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interest of owners. The type 2 problem is named as Principal-Principal problem. This problem exists between the major and minor shareholders of large corporations. Since the major owners have high voting power so they can take participate in the decision-making process in their favor. The type 3 problem is the Principal – Creditor Problem, this problem, and conflict exists between owners and creditors due to the financing decision of risky projects (Panda & Leepsa, 2017; Yusoff & Alhaji, 2014). Generally, agency theory focuses on the opportunistic behavior of managers where they try to put their interests first by sacrificing shareholders‟ interests. As a result, the cost of solving agency problems is increased because under the corporate governance mechanism several measures need to be taken by the board of directors such as the establishment of numerous committees (Yusoff & Alhaji, 2014). The Board of directors plays an essential role in monitoring performance managers and aligning both parties‟ interests. The audit committee as a proxy of the board of directors works as a monitoring mechanism to control the management activities and match with the shareholders‟ needs. In addition, agency theory claims that the appointment of independent directors is the key to the effective and efficient performance of management (Fama & Jensen, 1983). Further, researchers suggest that performance-based incentive schemes will help to motivate managers to maximize wealth and decrease the chances of managers‟ opportunistic behavior (Khan, 2011). However confounding views also exist on this suggestion. Compensation-based managers' performance may highly empower to shareholders and minimizes the importance and role of managers (Afza & Nazir, 2014). Whereas the suggested solution to remove all these issues is to create a relationship between compensation and performance and create a healthy environment relationship.

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2.5.2 Stakeholder Theory

Stakeholder theory is the further extension of agency theory. It is argued that agency theory has limited scope because it identifies the interest of only shareholders only. The stakeholder theory suggests that a firm should create value for all stakeholders, not just shareholders (Freeman et al., 1984). However, the stakeholder theory scope is considered broader because it covers the role of corporate governance (Yusoff & Alhaji, 2014). This theory is based on the belief that managers should work in the best interest of all stakeholders and the board of directors should monitor the performance of managers. The notion of the theory is widened in today‟s scenario where business needs to take care the interest of all stakeholders (Schmid, 2006). Freeman (1984), argued that a stakeholder is considered as an organization or any individual who can affect or affected by the organization decisions. As time passes, different views and amendments came under the stakeholders‟ theory and scope of the theory becomes widened, thus all the members of society where business is operating, workers of firms, suppliers of raw materials, local community and competitors become an important element of stakeholders‟ theory (Freeman et al., 2004). Stakeholder theory stipulates that a firm works to improve and balance the interests of its several stakeholders in such a way that each stakeholder receives some level of compensation. It is suggested that a firm is no longer sole responsibility but also a firm needs to take care of the interest of society at large. Thus, stakeholder theory provides much wider scope of corporate governance. However, the stakeholders of the company consist of its employees, customers, lenders, suppliers, competitors, shareholders, investors, governments, banks, and society at large. Initially, stakeholder theory was embedded in the management discipline while with the passage of time different amendments and views came under stakeholder theory and

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now considered an important theory under corporate governance system. One of the main advantage of stakeholder theory is to consider and develop strategy for the entrepreneurial risks (Barney & Harrison, 2020).

In the current business environment not only owners or shareholders are more interested in the success of the business but also the suppliers, creditors, employees, potential investors, government & regulatory organizations, local community, lenders, trade associations, and the general public have a direct or indirect interest in business activities. This notion brings stakeholders theory to a more prominent position, where all stakeholders' interest has been considered and acknowledged. This theory refers to dealing with all stakeholders on a fairer basis (Harrison et al., 2015; Klepczarek, 2017). Figure 2 explains the different stakeholders which can affect and affected by organization's decisions. Later on, the stakeholder theory was criticized because the performance of a firm is not and should not be measured only by gains to its stakeholders (Jensen, 2002). While deeply studying corporate governance theories, the stakeholder theory occupies a prominent position because it claims to satisfy the interest of all stakeholders in its governance process.

2.5.3 Stewardship Theory

Stewardship theory is an important theory of corporate governance which assumes that managers should work as a steward. Stewardship theory is developed by Donaldson and Davis (1991) and Donaldson and Davis (1993). In contrast to agency theory, the stewardship theory presents a different perspective of management, where managers are considered stewards who will act in the best interest of the shareholders (Chrisman, 2019). The fundamentals of stewardship theory are based on psychology and sociology. This theory assumes that the managers will be always work in the best

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interest of the firm, they will protect and make profits for shareholders. The success of the firm tightly encompasses management commitment and when the shareholder's wealth will be maximized, the stewards will be also benefited in terms of remunerations (Abdullah & Benedict, 2009; Klepczarek, 2017; Yusoff & Alhaji, 2014). The unique feature of stewardship theory is to enrich trust in managers which is lacking in the perspective of agency. theory. Stakeholder theory assumes that insider directors have more information about the business performance and operations as compared to outsider directors (van Puyvelde et al., 2012).

In addition, stakeholder theory assumes that managers safeguard and protect shareholders" interests by taking the right decision to increase the wealth of the shareholders. In contrast to agency theory, stewardship theory considers that managers and inside directors are best to work in favor of shareholders (Schillemans & Bjurstrøm, 2020). Stewardship theory is based on the assumption that shareholders give more power and trust to managers (stewards) and in return managers will maximize their wealth (Yusoff & Alhaji, 2014). As a result of this theory, shareholders enjoy more profits and returns on their investments and managers will be able to achieve intrinsic and extrinsic rewards (Abdullah & Benedict, 2009). This theory depicts the positive relationship between shareholders and management, which is one of the requirements of good corporate governance practice. The primary emphasis of stewardship theory is to understand how managers can be motivated to contribute to the achievement of business goals. Thus, the theory is based to align the interest of managers (agents) and shareholders (principals) (Chrisman, 2019). Fig. 4 describes the stakeholder theory model. While studying corporate governance all the above theories are important and have their own arguments and validity. All the

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theories considered the relationship between shareholders and managers in different decisions especially financing decisions.

2.6 Empirical review

The empirical review section covers issues that relate to the relationship that earlier studies have been able to establish between the financial performance and corporate governance of firms. A number of empirical studies have been identified various determinant of corporate governance and banking sector regulations affect financial performance of firms.

2.6.1 Corporate governance and financial performance

Over recent decades, numerous empirical researchers have been increasingly concerned with the impact of corporate governance on financial performance. To date, a comprehensive literature review shows that no consensus has been reached among researchers (Agarwal and Knoeber, 1996; Lehman and Weigand, 2000; Gruszczynski, 2006; Black et al., 2006; and Berthelot et al., 2010). Some of these studies report a positive significant impact of corporate governance on financial performance. For instance, Drobetz et al. (2004) conclude that measures of firm value such as Tobin""s Q and market-to-book value are significantly related to better corporate governance practices. Brown and Caylor (2006) find a significantly positive association between Tobin""s Q and a constructed corporate governance index which consists of 51 elements of internal and external governance mechanisms.

Although the Organization of Economic Development (OECD) made tremendous efforts to enhance the positive linkage between the best practices of corporate governance and firm performance, such an association is not as clear-cut, in particular in both transition economies and emerging markets. For instance, Aboagye and

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Otieka (2010) find no association between the states of corporate governance among rural and community banks in Ghana and their financial performance. In addition, Al-Tamimi (2012) indicates that there is an insignificant positive relationship between the corporate governance practices of UAE national banks and performance level. In this context, Makki and Lodhi (2014) investigate the existence of a critical structural relationship between corporate governance, intellectual capital efficiency, and financial performance. They find no direct association between corporate governance and a firm"s financial performance. However, good corporate governance in a firm has a significant positive impact on intellectual capital efficiency which indirectly enhances its financial performance.

William (1988) evaluated the relationship between debt and equity in terms of CG and firm performance, and concluded that capital structure is able to influence management activities and performance.

Ruan et al. (2011) and Wahba (2014) find a significant relationship between managerial ownership and CS when examining the FP of Chinese and Egyptian firms, respectively. They reveal that managerial ownership mediates and moderates the association between CS and FP. Okiro et al. (2015) examine the impact of CG and CS on the performance of African listed firms from 2009 to 2013 and find that good CG positively affects a firm"s performance when they integrate CS into the governance model. Iqbal and Javed (2017) examine the moderating role of CG in the association between CS and FP, using firms listed in the Karachi Stock Exchange and find that CG positively moderates the relationship between CS and FP.

Elmagrhi et al. (2018) examine the relationship among trustee board diversity, corporate governance, capital structure, and firm performance in UK charity firms and

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find that capital structure has a positive effect on firm performance and that this effect is moderated by trustee board diversity and corporate governance. Consistent with the mediating/moderating effect literature (Baron & Kenny, 1986).

Jensen & Meckling (1976) further define agency relationships and identify agency costs. An agency relationship is a contract under which "one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent". Conflict of interests between managers or controlling shareholders, and outside or minority shareholders refer to the tendency that the former may extract "perquisites" (or perks) out of a firm‟s resources and be less interested in pursuing new profitable ventures. Agency costs include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent, and residual loss due to divergence of interests between the principal and the agent. The share price that shareholders (principal) pay reflects such agency costs. To increase firm value, one must therefore reduce agency costs. This is one way to view the linkage between corporate governance and corporate performance. Fama (1980) concludes that the separation of ownership and control can be explained as a result of "efficient form of economic organization".

Abdulliah et al. (2019) investigated the effect of governance on the performance of Jordanian commercial banks. The authors tested effect of governance mechanisms such as board size, CEO duality and percentage of non-executive directors, capital adequacy, and the ownership percentage of the largest shareholder on the bank performance as measured by Tobin‟s Q. They found that CEO duality, and percentage of non-executive directors, had a statistically significant positive effect on

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the performance; whereas leverage and board size had statistically significant negative effects on the performance and concluded that as CEO duality, percentage of non-executive directors, ownership concentration and capital adequacy are recognized as effective determinants on banking performance.

Also, Okoye et al. (2020) examined the effect of corporate governance on bank performance in Nigeria. The study used robust econometric techniques to analyze the collected data and found that contrary to existing evidence, board size as well as CEO status has a positive effect on performance. This result contradicts the argument put forward by Abdulliah et al. (2019) who documented that board size has a negative effect on the financial performance of firms. Another dimension of the literature on bank corporate governance and performance has focused on the relationship between external corporate governance mechanisms and bank performance. Additionally, accountability and feedback on work done were found to have associated positively with the performance of financial institutions, the study was confined within only Moshi municipality and this makes it the limitation of the study because the scope could have been extended to get more profound result since the municipality may possess certain peculiarities that may differ in other districts as well as county level.

In a similar vein, an academic apprehension found that sixty-one percent of relative changes in the performance of non-bank financial institutions are accounted for by corporate governance practices put in place upon using return on asset as the measure of financial performance, 40 percent relative variation in the performance of the firm was ascribed to corporate governance practices as the cause after proxying financial performance by return on equity (Boamah, 2019). The size of a financial institution‟s board was found as a significant predictor of return on assets while how a company‟s

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board is composed showed a statistically negative and negligible effect on return on assets just as the number of board meetings in a period and director‟s remuneration or fees. Just as the effect shown by most of the variables accounted for, several internal audit committee members showed a negligible effect on return on assets. The positive effect contradicts the account of Abdullaih et al. (2019) whose study unveiled a negative effect of board size on the financial performance of banks. Again, the board composition of the corporate body depicted a negative insignificant bearing on ROE, board size indicated a positive and significant predicting power on ROE. Emolument given to a director had a positive association when it was regressed on return on equity, nonetheless, meetings handled by the board exerted a statistically insignificant effect on ROE whilst the number of members that form an internal audit committee was significantly related to return on equity (Boamah, 2019). The study possesses some deficiencies since the focus was on only a single region out of the sixteen regions in Ghana. It was microscopic since there are more than two variables that can be used to measure the financial performance of financial institutions. For instance, absolute and relative measures like Value at Risk, enterprise value and net profit margin, return on capital employed, and equity multiplier just to mention but a few. Notwithstanding, the researcher used only two without giving any justifiable reasons for his choice, again, the number of financial institutions sampled was not disclosed as well as the particular data analysis aside from showcasing the quantitative approach deployed.

To fill the gap created by previous studies on corporate governance practices and their effect on financial institutions‟ performance, Ackon (2021), used a sample of 16 financial institutions mainly in Ghana‟s central region with data spanning over five years, return on equity and return on asset were used as an indicator of financial

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performance. Employing a random effect model of a static panel revealed that, increasing the size of the board triggers a significant positive effect on return on asset whilst an adverse impact is inflicted by the same variable on return on equity. This outcome affirms the findings of (Boamah, 2019) whose empirical interrogation found the return on asset as a positive predictor of financial performance however, that of return on equity deviates from the findings of (Boamah, 2019) whose study showed a positive significant relationship between corporate governance and financial performance as measured by ROE.

Credit risk and audit compliance were found to be significant indicators of financial performance (Ackon, 2021). Management should enlarge the board size, and effort should be made to as much as possible comply with auditors‟ commendations since paying heed to such recommendations would eventually tighten internal control mechanisms thereby triggering higher performance (Ackon, 2021). The study is stricken with similar limitations just as that of (Boamah, 2019), due to that, the applicability of the study‟s findings can be questionable to some extent because the sample frame was only one region out of the total number of regions in the country. Again, the period for data used could have been extended to have robust data. On the other hand, a study to ascertain the connection between corporate governance structures and their rippling effect on the financial performance of banks in Ghana used 8 banks comprising four local and expatriate banks each as the sample size with the use of purposive sampling method, descriptive design, and quantitative approach. The test, result showcased a positive and statistically insignificant relationship between board size and ROA (Atta, 2020).

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This revelation agreed with that of (Boamah, 2019; Ackon, 2021) who unanimously found board size as a significant determinant of return on asset. Board gender diversity as a proxy for corporate governance is insignificant but positively related to financial performance, therefore listed universal banks should ensure gender equity when constituting the board of their banks (Atta, 2020). Also, board composition reflected a negative yet significant association with financial performance of the studied banks. Comparing this to previous studies shows a negligible deviation from the findings of (Boamah, 2019) who concluded board composition has insignificant negative relation with the performance of financial institutions Director equity interest had an insignificant inverse association with the financial performance of the studied banks (Atta, 2020).

However, to investigate the features of board composition, effect of corporate governance and financial performance of listed companies on the Ghana stock exchange, stratified sampling was deployed to draw fourteen companies. Secondary data from these companies were assembled over a period of 8 years and upon the use of panel regression the outcome depicted that registered companies on the stock exchange of Ghana uses higher number of non-executive directors, most of the company‟s board are mostly occupied by high number of males and ensures non-CEO duality thus, there is separation between CEO and chairman of the board of directors (Eshun, 2020). Variables used to represent corporate governance showed a positive connection with earning per share, exercising better corporate governance leads to better performance since it yields greater access to financing avenues and lower capital cost. Finally, debt profile of the listed firms was found to have a direct relationship with corporate governance proxies yet negative relationship with firm performance (Eshun, 2020). CEO duality and tenure relate positively with the debt

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profile of the firms and correlated negatively with board size yet positively correlated with board composition. The author alleged that, appointing a different person to serve as the chairman of the board aside the CEO dwindles the corporate tension that may ensue between managers and the board thereby encouraging better organizational performance (Eshun, 2020). The indication of board size showing positive relationship with company performance confirms the assertion of Ackon (2021) contrastingly, the same result altercate the empirical evidence presented by (Atta, 2020). The study used different indicators in measuring corporate governance and its effect on firm performance and financing decisions making its cumbersome to interpret the findings and possible replication. Again, it used only earnings per share out of the numerous indicators to measure the financial performance of the listed firms making the veracity of the result contestable to some extent.

A study conducted a review of extant literature to reveal the association between corporate governance as measured by board gender diversity and its impact on firm performance. The qualitative approach was used to establish the context, measurement approach, theoretical and various drawbacks related to various methodologies deployed in previous research on corporate governance and its effect on organizational performance. The critical examination revealed that board gender diversity affects the financial performance of corporate organizations adversely (Wagana, 2016). The revelation is against the result of (Atta, 2020) whose study found positive result nonetheless the same cannot be said of (Musah & Adutwumwaa, 2021) whose study on the relationship between board gender diversity and corporate performance found an opposite result.

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2.7 Conceptual Framework

Following the review of the literature, below is the conceptual model formulated to illustrate the impact of corporate governance on financial performance variables in the study. This relationship is illustrated in the figure below:

Conceptual Framework Illustrating the Relationship between Corporate Governance and Bank Financial Performance

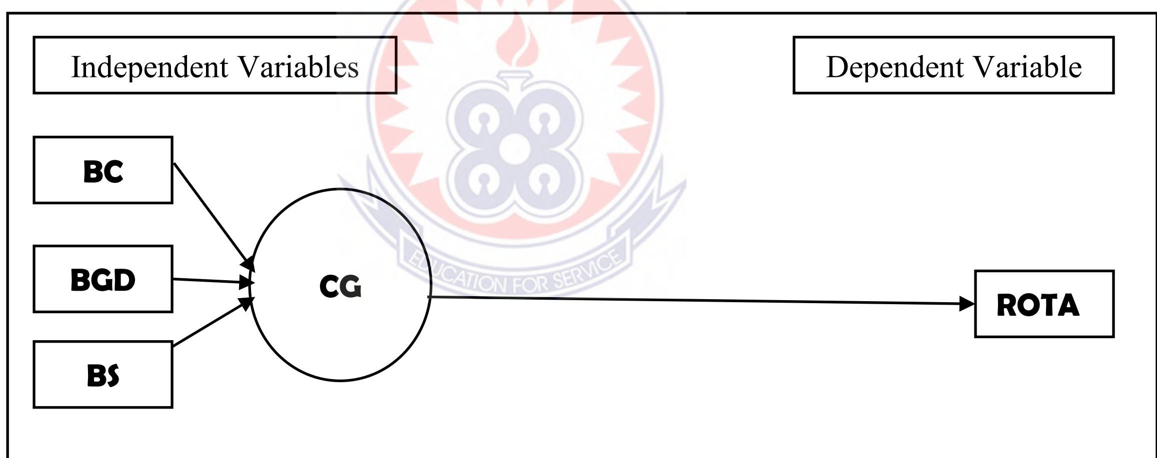

Figure 1: Conceptual framework

From the figure above, determinants of corporate governance include board size and board ownership while financial performance indicators are captured by return on asset (ROA). The performance indicators are the dependent variables; the corporate governance variables are the independent variables. In essence, the current study assesses the relationship between corporate governance and its significant impact on financial performance.

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CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section presents the methods that the researcher used in executing the study by discussing the research design, the population, the sample and the sampling procedure. It also discusses the sources of data collection, variables used, the panel regression model and the data analyses plan.

3.2 Research Design

Burns and Grove (2003) define a research design as a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings. Parahoo (1997) describes a research design as a plan that describes how, when and where data are to be collected and analyzed. Polit et al. (2001) also define a research design as the researcher's overall plan for answering the research questions or testing the research hypothesis. Research designs are very important in research work as they are usually employed by the researcher to obtain answers to the research questions. Research design is the overall plan employed by the researcher to obtain answers to the research questions and for testing the hypothesis formulated (Agyedu et al., 2011).

This study would adopt a casual research design which explain the cause - and - effect relationships between capital structure and profitability variables. The study shall adopt Quantitative research design as the approach in line with the objectives of the study. With this Panel regression model would be used for this study. According to Anarfo (2015), panel has an advantage over other models when there is a large sample

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observations and data because it increases the degree of freedom among the independent variables as well as the predictive power of the model.

3.3 Population

The population for the study included all listed banks in Ghana that are incorporated under the Ghana Companies Code 1963 Act 179 and have prepared their financial statements covering the period from 2010 to 2020.

According to Zikmund (1997) a population is any complete group of entities sharing some common set of characteristics.

For this reason, the population for the study was 9 listed banks in Ghana namely Access Bank Ghana Plc, Agricultural Development Bank, CalBank Plc, Ecobank Ghana Plc, GCB Bank Plc, Republic Bank (Ghana) Plc, Standard Chartered Bank Ghana Plc, Societe Generale Ghana Plc, and Trust Bank Limited. The reason only listed banks were used for the study is the high level of legislation and regulation that ensure that banking businesses are pushed to greater heights. Second to competition, 72.7% of the sampled bank executives ranked legislation and regulation as a major factor that would have the biggest impact on the banking industry in the years to come (Ghana Banking Survey, 2014).

3.4 Sampling and Sampling Procedure

Polit et al (2001) define a sample as a proportion of a population. The purposive sampling technique was employed to select listed banks in Ghana from 2010 to 2020 that make the sampling frame of the study.

Purposive sampling technique is most appropriate when sampling units within the segment of the population have the most information of the characteristics of interest.

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According to Parahoo (1997), purposive sampling as a method of sampling where the researcher deliberately chooses who to include in the study based on the ability to provide necessary data.

This technique was considered appropriate because the gives even and fair generalization of findings.

3.5 Data collection

This study involved only secondary data, specifically the financial statement of commercial banks in Ghana from 2010 to 2020. The secondary data according to Saunders et al. (2007) are made of three groups which are survey-based data, documentary data, and those compiled from multiple sources. The survey-based data describes data, which has been collected through survey strategies, such as the use of questionnaires. Therefore, survey-based secondary data is useful for studies that require data that has already been collected for similar studies. Documentary data comprises memos, news, reports and administrative correspondence that hold information that is critical for the study.

3.6 Variable description

On the other hand, Cheng et al. (2010), mentioned that, multiple-source secondary data relates to data collected through the combination of survey-based data and documentary data. Three reasons informed the choice for secondary data for the study. Firstly, the data required for the study could not be procured through primary source because the holders of the data were not willing to release the data. Secondly, the financial performance data of most companies can be obtained from their either their published or unpublished financial statements which offered a basis for their analysis. Finally, an authentic overview of the corporate governance practices of all

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selected banks were studied and analysed. The data set for the study are classified into two categories; financial data which were obtained from the data of the various banks and the Bank of Ghana and the economic data were accessed from the data file of the Ghana Statistical Service.

Quantitative studies seek to give a precise and objective report about a phenomenon and as such the need to measure the attributes of the phenomenon in quantitative studies (Bui 2009). As described in the study design, this study is quantitative and for that matter. Return on Total Asset was used as the dependent variables and the independent variables were board size, board structure and board gender diversity. Firm size, inflation rate and policy rate were all measured as control variables for the study.

3.6.1 Dependent variables

The main dependent viable used for study was return on total asset (ROTA) which was to assess financial performance of the listed banks in the study.

3.6.1.1 Return on total asset

Return on total asset (ROTA) was estimated as the ratio of net income that is after tax profit per Ghana cedi of asset to total asset. This ratio measures after tax profit per cedi of assets. It is also called return on investment (ROI).

3.7 The Independent Variables

The researcher employs three proxies for corporate governance; Board size (Ngatno 2021), board gender diversity (Atta, 2021) and board structure (Okiro et al., 2015).

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3.7.1 Board Size

Board size is defined as the natural logarithm of director's number on the board and this is in line with these works (McGuiness et al, 2016; Kabir & Thai, 2017; Detthamrong et al, 2017; Bhagat & Bolton, 2008). Prior research found a positive effect for board size on capital structure and firm performance.

3.7.2 Board Structure

Following the work of (Kang & Ausloos, 2017; Boateng et al., 2017) board structure is defined as the People who comprise the company"s board of directors.

3.7.3 Board Gender Diversity

Consistent with the study of (Nekihili et al. 2020; Yang et al, 2019) we measure gender diversity as Number of male and female directors.

3.8 Control variables

3.8.1 Firm size

Size has been viewed as a determinant of a firm"s capital structure (Abor, 2008). Larger firms tend to be more diversified and hence have lower variance of earnings, making them able to tolerate high debt ratios (Mazur, 2007). Smaller firms on the other hand may find it relatively more costly to resolve information asymmetric with lenders thus may present lower debt ratios (Saad, 2010). In this study, firm size has been taken as the logarithm of the total asset of the insurance companies. The use of logarithm enables us to obtain the real total asset of the firms due to its capabilities to standardize values thus, bringing them on the same platform for a more efficient analysis to be done.

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3.8.2 Inflation

Inflation is measured using the consumer price index which reflects the annual percentage change in the cost of acquiring a fixed basket of goods and services to the average consumer. This factor is measured as a yearly average inflation variable published by the Bank of Ghana. It is expected that a strong sustainable economic growth improves the intermediation efficiency as it boosts the level of deposits to banks and the demand for loans by individuals and business entities. This is only experienced when noninterest expenses are relatively stable. Owolabi (2017) found that the effect of inflation on financial performance of manufacturing firms in Nigeria is not significant. This was confirmed by Otambo (2016) who also found that the relationship between inflation and financial performance of in kenya to be statistically insignificant.

3.8.3 Policy rate

Foreign exchange rate an important control variable because it forms part of the overall economic activities and for the past years, the experience in Ghana testifies, exchange rate influences the cost of items in the country.

Gado (2015), in a study on the influence of economic factors on firm performance in Kenya. In the study exchange rate was found to have statistically insignificant relationship with financial performance. In a related study on Ghana, Gatsi (2012) found that, foreign exchange rate negatively influences the performance of listed banks in Ghana. This conclusion was reach after embarking on a cross sectional data covering 2002 to 2011.

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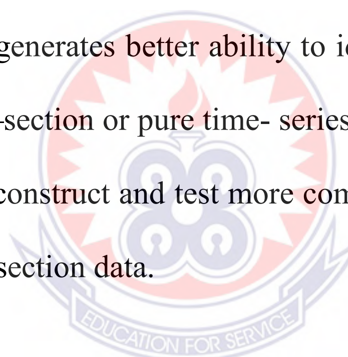
3.9 Panel regression model

The panel regression model used by Abor (2008), Akoto and Gatsi (2010) was adopted for this study. Abor (2008) indicated that panel data provides results that are simply not detectable in pure cross-sections or pure time-series studies. Abor (2008) further argued that the panel data is more useful than either cross-section or time series data as used by Fu (2007) alone due to the following reasons;

Firstly, panel data model provides more edifying data, more variability, less collinearly among variables, more degrees of freedom and more effectiveness. Also, the model provides controls for individual"s heterogeneity due to hidden factors. The panel data model again provides better ability to study dynamics of adjustments. Furthermore, the model generates better ability to identify effects that are simply not detectable in pure cross –section or pure time- series data and finally panel data model enable the researcher to construct and test more complicated behavioural models then cross-section on or time-section data.



3.10 Model specification

The theoretical and empirical literature on financial performance and corporate governance in finance has identified a vector of variables that influence firm financial performance including debt, disintegrated into short-term debt, long term debt, and total debt. The relationship between debt and listed banks financial performance in Ghana is thus estimated in the following regression models:

$$ROA_{,i,t} = \beta_0 + \beta_1 BS_{i,t} + \beta_2 IF + \beta_3 FM_{i,t} + \beta_4 PR_{i,t} + CRISIS + e \quad \text{.........} (1)$$

$$ROA_{,i,t} = \beta_0 + \beta_1 BGD_{i,t} + \beta_2 IF + \beta_3 FM_{i,t} + \beta_4 PR_{i,t} + CRISIS + e \quad \text{.........} (2)$$

$$ROA_{,i,t} = \beta_0 + \beta_1 BC_{i,t} + \beta_2 IF + \beta_3 FM_{i,t} + \beta_4 PR_{i,t} + CRISIS + e \quad \text{.........} (3)$$

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Where:

$ROA_{i,t}$ Represents Return on Assets for firm i in time t

BS Represents Board Size

BGD Represents Board Gender Diversity

BC Represents Board Composition

IF Represent inflation

PR Represents Policy Rate

FM Represents Firm Size

e is the error term

3.11 Estimation method

Park (2009) opined that estimation of panel data models using pooled ordinary least squares yields inconsistent estimators and heteroskedasticity errors. The researcher further stated that if the parameters to be estimated vary across firms the pooled regression is not appropriate because of the heterogeneity in the parameter as an estimate is not well dealt with. From a theoretically perspective, Baltagi (2005), explained that overlooking such stricture heterogeneity among cross –sectional and time series could lead to inconsistency estimates of interesting parameters.

Baltagi (2005) noted that correct this problem, it is therefore appropriate to use panel data model. According to the researcher, panel estimation methods including the fixed effect and random effect methods are commonly used in estimating heteroskedastic consistent estimators. Park (2009), further stated the basic differences between the above-mentioned estimation technique was based on the assumption about the relationship between the error term and the covariates. The choice of the estimation process is informed by the deficiencies with pooled ordinary least squares.

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Using panel data to estimate models requires the determination of whether there is a correlation between the unobservable heterogeneity in each firm and the explanatory variables of the model. If the final outcome results a correlation which is fixed effect, consistent estimation would be obtained by means of the group estimation. Otherwise, random effects are more appropriate estimator that can be achieved by estimating the equation by cross section generalized least squares (Park, 2009).

The usual econometrics strategy to determine whether the effects are fixed or random is to use the Hausman (1978) test under the null hypothesis. If the null hypothesis is rejected, the effects are measured to be fixed, and the model is then estimated by OLS. If the null hypothesis is accepted, we would have random effects, and the model is then estimated by GLS. In this way we achieve a more efficient estimator of β and the estimated model can be said to be robust, all else equal. But because the some of the independent variables might have multicollinearity the ordinary ridge regression is used in the study. Park (2009) indicated that, ordinary ridge regression (ORR) is used to correct the problem of multicollinearity though it has the problem of shrinking the estimates toward zero.

3.12 Data preparation and analysis plan

The quantitative data from the financial statements of the listed banks from 2010 to 2020 was used for the study. Two main ratios, the profitability ratio and the leverage ratios were computed using the raw data from the financial statements in accordance with the formulae provided under "measurement of variables". The profitability ratios computed were return on assets (ROA) and return on equity (ROE). The ratios were used because they are considered as the best financial performance indicators (Dreyer,

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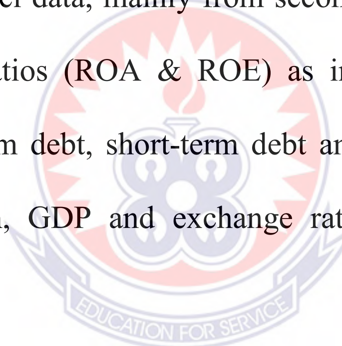
2010). The leverage ratios computed were short –term debt to total equity, long –term debt to total equity and total debt to total equity.

Since the study is quantitative in nature, the main sections considered for discussion under the analysis column are the descriptive statistics of the variables, correlation matrix and finally the results of the panel regression estimate of profitability and debt nexus conclude the discussion.

3.13 Chapter Summary

This chapter explained the specific methods, procedures and the various techniques used to conduct the study in terms of data collection, presentation and analysis of the data. The study used panel data, mainly from secondary data. The variables used are financial performance ratios (ROA & ROE) as independent variables and capital structure ratios (long-term debt, short-term debt and total debt ratios) as dependent variables while inflation, GDP and exchange rate were used as macroeconomic indicators.



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CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter of the study presents the results ascertained from the several statistical tests conducted to assess the objectives of the research, the chapter proceeds to analyze the results and compares the findings with existing findings in the literature to know the extent of consistency or deviation from literature. This chapter is important in empirical studies since it shows the relation of the study‟s findings to conventional findings.

Table 4.1: Descriptive Statistics

	ROTA	BS	BGD	BC	FS	IF	PR	CRISIS
Mean	3.025	10.247	0.255	0.498	12.528	12.590	16.821	0.240
Median	3.000	10.000	0.220	0.500	11.186	11.426	16.000	0.000
Maximum	7.000	14.000	0.600	0.810	19.247	19.247	25.500	1.000
Minimum	-3.700	8.000	0.070	0.180	6.919	7.144	12.500	0.000
Std. Dev.	1.920	1.776	0.130	0.162	3.771	3.757	3.314	0.429
Skewness	-0.461	0.600	1.062	0.074	0.324	0.307	1.198	1.216
Kurtosis	3.769	2.389	3.699	2.035	1.821	1.802	3.977	2.478
Jarq Bera	8.414	11.628	32.065	6.115	11.609	11.629	42.969	39.691
Prob	0.105	0.213	0.091	0.047	0.103	0.003	0.200	0.010
Sum	423.45	1578.0	39.320	76.740	1929.30	1938.88	2590.50	37.000
Sq. Dev.	512.25	482.623	2.569	3.998	2176.06	2159.745	1680.839	28.110
Obs	140	154	154	154	154	154	154	154

Source: Statistical output (2023)

4.2 Descriptive analysis

In the dynamic landscape of the banking sector, a comprehensive understanding of key variables is crucial for policymakers, researchers, and industry stakeholders. In statistical research, descriptive analysis is conducted to explore the characteristics of the data under discussion. The descriptive statistics result for the study is presented in Table 4.1 above. According to the table, the mean ROA of 3.025 indicates the average

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profitability of the sampled banks and suggests that most of the studied banks were performing abysmal during the period under consideration, with a standard deviation of 1.920 highlighting variability in ROA across the institutions. A slightly negative skewness (-0.461) hints at a leftward concentration of higher ROA values. The mean Board Size of 10.247 reflects the average number of board members which indicates that most of the studied banks have enough board members. A positive skewness of 0.600 suggests a rightward distribution, potentially indicating variations in board size. Board Composition, with a mean of 0.498, denotes the average proportion of executive directors. A skewness of 0.074 implies a relatively symmetrical distribution, warranting attention to the potential impact of different compositions on organizational dynamics. Examining Board Gender Diversity, the mean value of 0.255 represents the average proportion of female members on boards which indicate that the majority of the banks keep few numbers of female on their board. Positive skewness (1.062) and a probability value of 0.091 show a normal distribution and indicate a rightward distribution, emphasizing the need for initiatives promoting gender inclusivity in boardrooms. In terms of Firm Size, the mean value of 12.528 represents the average size of the sampled firms.

Positive skewness (0.324) suggests a rightward distribution, hinting at potential variations in the size of financial institutions. The mean Inflation rate is 12.590, and positive skewness (0.307) suggests a rightward distribution, with a probability value of 0.003 indicating potential non-normality. The mean Policy Rate of 16.821 reflects the average policy interest rate. A positive skewness of 1.198 and a probability value of 0.200 suggest a rightward distribution, emphasizing the role of monetary policies in shaping the banking environment. Finally, in terms of Banking crisis occurrences, the mean value of 0.240 denotes the average frequency. Positive skewness (1.216) and a

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probability value of 0.010 suggest a rightward distribution, indicating the relevance of examining factors contributing to banking crises.

Table 4.2: Pairwise Correlation

Variables	ROTA	BS	BGD	BC	FS	IF	PR	CRISIS
ROTA	1.000							
BS	0.125	1.000						
BGD	0.042	-0.215	1.000					
BC	0.017	0.012	0.139	1.000				
FS	0.078	-0.086	-0.075	-0.032	1.000			
IF	-0.078	-0.086	-0.075	-0.032	1.000	1.000		
PR	-0.073	0.042	-0.004	-0.133	0.542	0.542	1.000	
BCRISIS	-0.127	-0.027	-0.039	-0.025	0.218	0.218	0.031	1.000

Source: Statistical output (2023)
The acronyms used in the tables have the following meanings ROTA=Return on Total Asset, BS=Board size, BGD=Board Gender Diversity, BC=Board Composition, FM=Firm Size, IF=Inflation, PR=Policy Rate, CRISIS=Crisis.

4.3 Correlation Analysis

Correlation is a measure that is used to assess the strength of the relationship between a variable with each other in the series. The lower the correlation coefficient the weaker the strength of the relationship whilst the higher the coefficient the stronger the relationship. The positive coefficient means that the variables under consideration move in the same direction whilst a negative correlation coefficient means that the variables move in the opposite direction. Thus, an increase in one would lead to an increase in the other whilst a decrease in one would mean a decrease in the other in positive and negative correlation respectively. According to existing studies, a correlation coefficient of above 0.7 (Field, 2009) shows the presence of multicollinearity at the same time another strand of study (Hair et al., 2019) asserts that a correlation coefficient of 0.8 and above shows the presence of multicollinearity.

According to the correlation results presented in Table 4.2, board size showed a positive correlation with return on asset indicating that both variables move in a

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parallel direction. Board gender diversity registered a positive weak correlation with return on asset which suggests that an increase in the female representation on a board can led to higher return on asset. Board composition revealed a positive weaker correlation with return on asset, this result connotes that as more independent executive directors are increased on a bank‟s board return on asset can be improved. The size of a company recorded a comparatively stronger positive correlation with return on asset which means that as the company expands its profitability can increase. Inflation on the other hand had a negative and averagely strong correlation with return on asset which shows that as the price of goods and services rises return on asset dwindles. Policy rate and return on asset moved in an unparallel direction. Similarly, crisis as expected correlated negatively with return on asset indicating occurrences of crises interrupt banking operations and reduce profitability. In summary, since the highest correlation coefficient was less than 0.7, the analysis concludes that there is no multicollinearity.

Table 4.3: Panel stationarity results

Variables	t-Statistic	Prob.	t-Statistic	Prob.	order
ROTA	2.143	0.039**	3.635	0.0002***	(0)
BS	2.700	0.012**	5.522	0.000***	(0)
BGD	1.413	0.150	3.860	0.0001***	(1)
BC	2.633	0.014**	2.283	0.0162**	(0)
IF	0.729	0.818	3.210	0.0344**	(1)
FS	1.313	0.110	1.860	0.0011***	(1)
PR	3.246	0.032**	3.131	0.0432**	(0)
Crisis	2.570	0.115	1.133	0.005***	(1)

Source: statistical output (2023)

4.4 Stationary Analysis

The stationarity test is used to assess the presence of unit root in a dataset. In statistics, data is said to be at unit root if there is unstableness in the moment of the

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data. thus, the mean, mode, median, maximum, minimum, and variance of the data exhibit a random walk which makes it difficult to predict future outturn or forecast future events. This phenomenon is assessed through the stationarity test using the conventional Augmented Dickey-Fuller (ADF) testing approach which tests the null hypothesis that there is no stationarity in the dataset which is rejected at the 5% level of significance. The stationarity results as presented in Table 5.4 show that at level ROTA, BS, BC, and PR were stationary because they recorded a p-value of less than 0.05. The study conducted the test at the first difference and found the remaining variables stationary based on their p-values of less than 0.05. This means that the variables under review are stationary at orders 0 and 1.

Table 4.4: Regression Result

Dependent Variable: ROA

Variables	Coefficient	Std. Error	z-Statistic	Prob.
C	0.711	0.257	2.770	0.018**
BS	0.067	0.077	0.876	0.040**
BGD	0.518	0.159	3.260	0.008**
BC	0.779	0.290	2.686	0.021**
PR	-0.073	0.156	-0.471	0.647
IF	-0.139	0.041	-3.398	0.041**
FS	0.025	0.007	3.571	0.010**
Crisis	-0.091	0.037	-2.45	0.047**

Robust Statistics

R-squared	0.841	Adjusted R-squared	0.824
Rw-squared	0.621	Adjust Rw-squared	0.612
Akaike info criterion	716.064	Schwarz criterion	131.400
Deviance	0.421	Scale	0.033
Rn-squared statistic	50.413	Prob (Rn-squared stat.)	0.000***

Source: Statistical output (2023).

***** Significant at 1%, **Significant at 5%, * significant at 10%**

4.5 Discussion of Results

This section of the study explains the various results recorded by the study based on the objectives.

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4.5.1 Relationship between board size and financial performance of banks.

The regression test through the robust least square showed a statistically significant positive relationship between board size and return on asset at a magnitude of 0.067 and significance of 0.040**. This shows that a rise in the number of individuals constituting a bank"s board would trigger an increase in the profitability of banks. The positive results imply that a larger board may bring together individuals with diverse skills, experiences, and expertise. This diversity can enhance the board's ability to make well-informed decisions, contributing to improved financial performance and, consequently, a positive impact on profit. Again, the positive effect connotes that with a larger board, there may be a greater pool of knowledge and perspectives, leading to more effective decision-making. This enhanced decision-making process could positively influence the strategic direction and operational efficiency of the bank, contributing to higher profitability.

Also, the positive relationship is intuitional because larger boards may have greater access to networks, resources, and connections, facilitating better opportunities for the bank. Improved resource access can positively affect the bank's operations, potentially leading to enhanced financial performance reflected in return on assets. The positive result of board size with profitability is consistent with the stewardship theory which suggests that managers act as stewards, actively overseeing and safeguarding the organization's resources (Donaldson & Davis, 1991; 1993). A larger board can enhance managerial oversight by providing a broader range of perspectives and expertise. More board members mean more eyes on organizational activities, potentially leading to better monitoring of managerial actions. Again, the positive effect of board size on profitability can be seen through the lens of stewardship theory as it aligns with the principles of active oversight, diversified decision-making,

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reduced information asymmetry, a long-term orientation, mitigation of agency conflicts, and enhanced risk management all of which contribute to the responsible and effective stewardship of organizational resources improving profit.

The positive effect of board size on return on assets supports the account of Boamah (2019) whose study of the relationship between the number of board members and the financial performance of banks in Ghana discovered that board size positively affects the profitability of banks. Again, the positive relationship between board size and financial performance as recorded by the study confirms the account of Ackon (2021) who found that the board size of banks has a positive relationship with the financial performance of banks in Ghana. Similarly, the study‟s result is in line with the findings of Atta (2020) whose inquiry revealed that board size has a positive relationship with the financial performance of banks in Ghana. In contrast, the positive results oppose the account of Abdulliah et al. (2019) whose study of the board size of Jordanian commercial banks has a negative significant relationship with bank financial performance.

4.5.2 Relationship between board gender diversity and financial performance of banks.

To examine the second objective the statistical test revealed a positive significant relationship between board gender diversity and the financial performance of banks, this relationship had a coefficient of 0.518 and a p-value of 0.008*** which demonstrates that a well gender-balanced board triggers a positive impact on the profitability of banks. Board gender diversity is often associated with a broader range of perspectives and experiences. The recorded relationship implies that the inclusion of women on boards can bring different viewpoints to discussions and decision-

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making processes. This diversity may lead to more comprehensive analyses, innovative solutions, and better-informed decisions, ultimately positively influencing financial performance. Again, the positive results imply that a diverse set of perspectives can lead to more effective identification and mitigation of risks. Improved risk management is crucial for financial institutions, and a gender-diverse board may contribute to a more robust risk management framework, positively impacting financial performance.

Also, the finding is intuitional because companies with gender-diverse boards are often perceived positively by investors, customers, and other stakeholders. The perception of a commitment to diversity and inclusion can enhance the trust of stakeholders, contributing to the bank's reputation and potentially attracting more diverse talent. Positive market perception and stakeholder trust can be linked to improved financial performance. The registered positive result is in line with the expectation of the stewardship theory which emphasizes the active role of managers as stewards acting in the best interests of the organization (Donaldson & Davis, 1991; 1993). A gender-diverse board can contribute to a richer pool of stewardship skills. Women directors, as stewards, may bring a focus on long-term organizational goals, contributing positively to the stewardship theory's emphasis on responsible and forward-looking management. Moreover, the positive effect of board gender diversity aligns with both agency and stewardship theories, albeit through different mechanisms. The inclusion of women on boards contributes to better governance practices, improved monitoring, and a focus on organizational stewardship, all of which are essential for achieving the goals and interests of both shareholders and the organization at large. The positive relationship confirms extant literature that found a positive significant relationship between board gender diversity and the financial

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performance of banks see Atta (2020) whose empirical investigation uncovered that board gender diversity has a positive significant relationship with the financial performance of banks in Ghana. Also, the positive linkage between board gender diversity as found by the study supports the account of Eshun (2020) whose empirical investigation discovered that there is a positive relationship between board gender diversity and the financial performance of banks in Ghana. However, the result opposes the findings of those who recorded an inverse connection between board gender diversity and the financial performance of banks see Wagana (2016) whose studies on the relationship between board gender diversity and the financial performance of banks found an adverse result.

4.5.3 Relationship between board composition and financial performance of banks.

Assessing the third objective, the research revealed that there is a positive linkage between board composition and the financial performance of banks in Ghana at an extent of 0.779 associated with a p-value of 0.021**. This result shows that a higher percentage of independent directors on a board leads to higher financial performance among banks in Ghana. The finding implies that a diverse board composition, including members with varied skills, experiences, and backgrounds, can bring a wide range of expertise to decision-making processes. This diversity enhances the board's ability to analyze complex issues and make informed strategic decisions, potentially positively impacting financial performance. Again, the positive effect of board composition on the financial performance of banks is not surprising because independent directors are expected to provide unbiased oversight, ensuring that decisions are made in the best interests of shareholders, effective governance is crucial for financial performance. A well-composed board, especially with members possessing risk management expertise, can contribute to effective risk oversight.

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Banks, operating in a dynamic and risk-prone environment, benefit from boards that can identify, assess, and manage risks appropriately, potentially leading to improved financial performance. Furthermore, the positive effect of board composition on financial performance is ideal because board members who represent a variety of stakeholders, including shareholders, employees, and the community, can ensure a balanced consideration of interests. This alignment with diverse stakeholder interests can contribute to the sustainability and reputation of the bank, influencing financial performance positively which aligns with the stakeholder theory (Freidman et al., 1984; Yusoff & Alhaji, 2014). The positive relationship sides with the Agency theory and the stewardship theory. In the context of agency theory, the positive effect of board composition on the financial performance of banks is rooted in the theory's fundamental principles of aligning interests, effective monitoring, and the mitigation of agency conflicts (Jensen & Meckling, 1976).

A well-composed board, designed to serve as an effective agent for shareholders, enhances the oversight and decision-making processes, contributing to improved financial outcomes and aligning with the core tenets of agency theory. From the perspective of the stewardship theory, the positive effect of board composition on the financial performance of a firm is consistent with the principles of stewardship theory (Donaldson & Davis, 1991, 1993). A well-composed board, characterized by diversity, collective decision-making, a long-term focus, active governance, effective risk management, and consideration of stakeholder interests, reflects the stewardship approach to management. By acting as effective stewards, boards with the right composition contribute to the organization's overall well-being and financial success, aligning with the core tenets of stewardship theory. The positive relationship conforms with the result of Abdulliah et al. (2019) whose study of the relationship

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between the percentage of non-executive directors and the financial performance of Jordanian commercial banks revealed a negative significant relationship between the two variables. Again, the positive outcome supports the account of Eshun (2020) who also found a positive connection between board composition and financial performance of banks in Ghana. Conversely, the investigation of the effect of board composition on the financial performance of banks in Ghana concluded that board composition has a statistically significant negative relationship with the financial performance of banks (Boamah, 2019). Again, the positive effect of board composition on the financial performance of the bank as registered by the study is inconsistent with the negative effect documented (Atta, 2020).

On the control variables, the policy rate revealed a negative and insignificant relationship with the return on assets of banks in Ghana. This finding suggests that a unit rise in the policy rate triggers a decline in the profitability of banks. The policy rate, often set by a central bank, serves as a benchmark for interest rates in the economy and can impact the cost of funds, profitability, and risk-taking behavior of banks. This result means that an increase in the policy rate tends to raise the cost of funds for banks. If banks are unable to pass on these increased costs to borrowers through higher lending rates, their net interest margin may shrink, potentially negatively impacting profitability. Banks typically hold a mix of assets and liabilities with different maturities. If the policy rate increases, it may lead to higher interest expenses on short-term liabilities before corresponding increases in interest income from longer-term assets.

This interest rate sensitivity can negatively affect net interest income. The reason for the observed negative results is that higher policy rates can result in increased

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borrowing costs for businesses and consumers, leading to reduced loan demand. If banks experience a decline in loan volume, their interest income may be adversely affected, influencing overall financial performance. Also, central banks may raise the policy rate to cool down an overheating economy or curb inflation. However, such tightening measures can sometimes lead to an economic slowdown. A sluggish economic environment may impact the credit quality of loans in banks' portfolios, potentially affecting their financial health adversely. Similarly, inflation recorded an inverse significant relationship with the financial performance of banks in Ghana. The negative linkage means that a rise in the level of inflation in an economy would lead to a reduction in the profitability of banks. A rise in the level of price of goods and services would mean that there would be low turnover leading to lower profit levels and limiting their chances of repaying their loans. Again, the negative effect of inflation on the financial performance of banks is intuitional because hikes in prices affect the value of loans granted by banks since persistent increases in prices would take a longer time for banks to recover their credit which adversely impacts the value of their portfolio wealth. Conversely, firm size revealed a positive statistically significant relationship with the return on assets of banks. The positive connection stands to reason that a unit increase in the size of a firm‟s value leads to an increase in the level of profit among Ghanaian banks. The positive impact implies that larger banks may have more diversified portfolios across various sectors and geographic regions. This diversification can contribute to risk mitigation, as adverse developments in one sector or region may be offset by positive performance in others, potentially enhancing overall financial stability and performance.

Also, the positive relationship is intuitional because larger banks may benefit from economies of scale, which can lead to cost efficiencies and affect profit positively.

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Larger institutions may have the capacity to spread fixed costs over a larger asset base, potentially resulting in lower average costs per unit of output. This cost advantage can positively impact profitability and financial performance. Moreover, the positive association between firm size and the financial performance of banks is logical because larger banks often have greater access to capital markets due to their size and market presence. This access can facilitate fundraising at favorable terms, supporting the bank's capital adequacy and providing resources for investment in income-generating activities, which can positively impact financial performance. Contrastingly, the crisis which was denoted by the outbreak of the novel covid-19 and the 2008-2009 global financial sector crisis recorded a negative and statistically significant relationship with the financial performance of banks connoting that the occurrence of crisis leads to a significant reduction in the profit level of firms. The negative result is not surprising because during crisis times banks' portfolios are impacted adversely. Also, the inverse relationship is up to expectation because, during crises, economic downturns can lead to increased defaults on loans, impacting the asset quality of banks. A rise in non-performing loans (NPLs) can result in higher provisioning expenses, negatively affecting profitability and the overall financial health of banks. Since crisis crises often lead to increased market volatility and liquidity challenges, banks may face difficulties in valuing and selling certain assets, and liquidity shortages can raise funding costs. Market and liquidity risks can negatively impact the financial performance of banks, especially those heavily reliant on market activities. Moreover, central banks may respond to crises by implementing monetary policies such as interest rate cuts. While this can stimulate economic activity, it may compress net interest margins for banks, affecting their interest income and profitability.

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4.6 Robustness Checks

This section presents the results of the robustness indicators for the regression model used to assess the objectives of the study.

4.6.1 Model Fitness

In the multivariate regression test through the robust least square technique, the constant was positive significant with return on asset which means that in the event where all sampled independent variables assume values of zero profitability would still be positive. Again, the model has an R-square of 84.4% and an Adjusted R-square of 82.4%. Since R-square is used to measure the extent of explanatory power exhibited by the combined regressors with an acceptable rate of 70%, the study concludes that the regressors in the model explained more than the expected variation in the dependent variable. Again, the p-value of Rn-statistics which is used to assess the significance of the entire model revealed a p-value of 0.000*** which is less than the alpha value of 0.05, the study therefore concludes that the model is very significant in assessing the intended objectives of the study.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter of the study presents the summary of the results and findings ascertained from the various statistical tests conducted to assess the objectives of the study. The chapter also makes conclusions based on the findings recorded by the study. Finally, it presents recommendations based on the findings of the study and gives direction for further studies.

5.2 Summary of the study

The continuous survival of banks has been constantly linked with performance of banks as studies show that banks that perform financially well have brighter future and can survive in turbulent times. Corporate governance measures or practices ensured by banks in Ghana have also been linked to the financial performance of banks. However, the plethora of studies that sought to empirically test to ascertain the veracity of these assertions has yielded inconsistent results. This study sought to contribute to the growing discussion by assessing the following objectives; one, to examine the relationship between board size and financial performance of banks in Ghana. Two, to investigate the relationship between board gender diversity and financial performance of banks in Ghana, and three, to examine the relationship between board composition and financial performance of banks in Ghana.

To assess these objectives, the study reviewed extant literature to form the background of the study, it applied the stewardship, Stakeholder and the agency theories to explain the nexuses among the concepts. The investigation employed causal research and a quantitative approach; the census sampling technique was

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employed to draw a sample size of eleven banks from the population of the eleven listed banks in Ghana. The robust least square estimation technique was deployed to analyze 14-year period of panel data from 2008 to 2021 collected from the underlying banks. The results of the various statistical tests conducted are summarized based on the objectives below.

5.2.1 Relationship between board size and financial performance of banks in Ghana.

On the first objective, the study discovered that there is a positive significant relationship between board size and financial performance of firms in Ghana at a magnitude of 0.067 associated with a p-value of 0.040**. The positive relationship correlated with the stewardship theory and extant literature that found positive results.

5.2.2 Relationship between board gender diversity and financial performance of banks in Ghana.

The statistical analysis conducted to address the second objective indicated a statistically significant positive relationship between board gender diversity and the financial performance of banks. The correlation was quantified by a coefficient of 0.518, with a p-value of 0.008***. This finding suggests that having a board with a balanced gender composition positively influences the profitability of banks. The finding coincided with the agency theory and the stewardship theoretical framework.

5.2.3 Relationship between board composition and financial performance of banks in Ghana.

On objective three which sought to examine the relationship between board composition and the financial performance of banks in Ghana, the test revealed a positive statistically significant connection between board composition and the

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financial performance of banks in Ghana demonstrating a unit rise in the number of independent board members would trigger a positive impact on the financial performance of banks in Ghana.

5.3 Conclusions

According to the various results recorded from the various statistical tests alongside their appropriate interpretations, the following conclusions are drawn.

5.3.1. Relationship between board size and financial performance of banks in Ghana.

Based on the positive relationship found between board size and return on asset, the study concludes that large board size leads to effective decision-making, better risk management, and investment in diverse portfolios these in summation enhance a bank"s profitability. Again, it is concluded that increasing the number of board members introduces new ideas and expertise that impact profit positively.

5.3.2 Relationship between board gender diversity and financial performance of banks in Ghana.

Per the discovered positive effect of board gender diversity on the financial performance of firms, the investigation concludes that embracing gender diversity at the board level is not only a matter of promoting inclusivity but also a strategic decision that can significantly enhance a bank's financial performance. Again, the positive correlation underscores the value of diverse viewpoints in shaping strategic decisions, fostering innovation, and strengthening risk management practices within financial institutions. As organizations continue to recognize and prioritize diversity, these results provide a compelling case for the ongoing promotion of gender balance in boardrooms for the benefit of sustained financial success.

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5.3.3 Relationship between board composition and financial performance of banks in Ghana.

It is concluded based on the positive relationship between board composition and financial performance that incorporating non-executive directors on a bank‟s board leads to strategic investment decisions, and diverse ideas and improves the overall financial performance of banks.

5.4 Recommendations

The ascertained results and the ascribed interpretations warrant the following conclusions.

Considering the positive relationship between board size and return on assets, it is recommended for banking institutions to consciously evaluate and, if necessary, optimize their board size. Banks should focus on assembling a board that strikes a balance, ensuring it is neither excessively large nor too constrained. While diversity of expertise is valuable, an optimal board size can foster more effective decision-making and risk management.

Practically, banks should periodically assess the composition and functionality of their boards, taking into account the specific needs and challenges of the institution. This involves considering the diversity of skills and experiences while ensuring that the board remains nimble enough to make efficient decisions. Additionally, fostering an environment that encourages active participation and collaboration among board members is crucial for leveraging the positive impact associated with a larger board.

In light of the findings indicating the positive impact of larger board sizes on bank profitability, policymakers in the financial sector should consider promoting

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guidelines that encourage a balanced but adequately sized board composition. While recognizing the need for diversity, policymakers should avoid rigid regulations that might hinder the flexibility required for effective decision-making.

A policy recommendation would be to establish frameworks that guide banks in determining an optimal board size based on their specific operational contexts. Policymakers can work with industry stakeholders to develop best practices that encourage boards to prioritize diversity of expertise while remaining mindful of the potential challenges associated with overly large or small board sizes. This approach would contribute to creating an environment that fosters innovation, risk management, and, ultimately, sustained profitability in the banking sector.

Owing to the positive correlation between board gender diversity and financial performance, it is recommended that financial institutions actively prioritize and promote gender diversity within their boards. Practically, banks should establish inclusive recruitment and promotion practices to ensure a diverse representation of both genders at decision-making levels. This involves creating an organizational culture that values and leverages the unique perspectives and experiences that women bring to the boardroom.

Moreover, fostering mentorship and leadership development programs for women within the organization can contribute to building a pipeline of qualified female leaders. This proactive approach to gender diversity can lead to a more dynamic and effective board, ultimately enhancing the financial performance of the bank.

Given the strategic importance of gender diversity in influencing financial performance, policymakers in the financial sector should consider implementing

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policies that encourage and incentivize banks to enhance gender diversity on their boards. A recommended policy measure could involve setting diversity benchmarks or disclosure requirements related to gender representation.

Policymakers can collaborate with industry stakeholders to develop guidelines and frameworks that encourage banks to adopt best practices in promoting gender diversity. Additionally, providing incentives, such as recognition or regulatory benefits, for institutions that demonstrate a commitment to gender-inclusive practices can further encourage widespread adoption. These policy measures can contribute to creating a more equitable and high-performing financial sector.

Premised on the positive correlation between board composition and financial performance, it is recommended that banks actively seek to diversify their boards by incorporating non-executive directors. Practically, banks should implement inclusive and transparent recruitment processes to attract qualified non-executive directors with diverse expertise and backgrounds. This can contribute to a more well-rounded and innovative decision-making process within the board.

To enhance practice, banks can establish mentorship programs and networking opportunities for potential non-executive directors, ensuring a pipeline of diverse talent. Furthermore, fostering a culture that values input from non-executive directors and encourages open dialogue can harness the benefits of diverse perspectives in strategic decision-making.

To support the incorporation of non-executive directors for improved financial performance, policymakers should consider developing guidelines or incentives that encourage banks to have a balanced board composition. This policy recommendation

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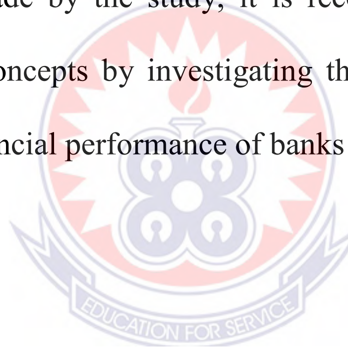
could involve setting benchmarks or disclosure requirements related to the representation of non-executive directors.

Policymakers can collaborate with industry stakeholders to establish standards for board diversity and recognize institutions that demonstrate a commitment to incorporating non-executive directors. By aligning regulatory frameworks with the strategic benefits of diverse boards, policymakers can contribute to building a financial sector that leverages a broad range of expertise, ultimately enhancing overall financial performance.

5.5 Recommendation for further studies

Per the observations made by the study, it is recommended that academia should explore the examined concepts by investigating the effect of corporate governance practices on the non-financial performance of banks in Ghana.



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