

UNIVERSITY OF GHANA, LEGON



**THE ROLE OF CORPORATE GOVERNANCE ON PERFORMANCE
AND FAILURE OF LOCAL BANKS IN GHANA**

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DECLARATION

I herewith say that this research is the result of my own research and was presented to none in this or any other university for an academic award. All references used in the work have been fully recognized.

I have exclusive liability for any weaknesses.

Signature:

Date:

ASHONG NSIAH

SUPERVISOR'S CERTIFICATION

I hereby certify that this thesis was supervised in accordance with procedures laid down by the University.

Signature:

Date:

DR. EDWARD ASIEDU

(SUPERVISOR)

DEDICATION

I am dedicating this thesis in the name of Allah, The Most Beneficent, and The Most Merciful to my mum Hajia Mariama Kai Sowah, my lovely wife Patience Akos Nsiah, and my beautiful daughters, Rahina Yemoley Nsiah, Yasmine Yemokor Nsiah, Benazir Yemokai Nsiah.

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LIST OF ABBREVIATIONS

ADF	–	Augmented Dickey-Fuller
ARDL	–	Autoregression Distributed Lag model
ECM	-	Error Correction Model
GDP	-	Gross Domestic Product
HIPC	-	Highly Indebted Poor Country
IMF	-	International Monetary Fund
OECD	-	Organisation for Economic Co-operation and Development
OLS	–	Ordinary Least Square
RGLS	-	Swamy and Swamy-Mehta random generalized least squares
WAEMU	–	West African Economic and Monetary Zone
WB	–	World Bank
WDI	–	World Development Indicators
WEO	–	World Economic Outlook

ABSTRACT

The banking industry in Ghana has undergone a major shift in focus, partly in response to the advent of global financial liberalization and innovation. The industry increased the number of banks to thirty-four (34) as at December, 2016 and subsequently to thirty-seven (37) in 2017.

The Ghanaian economy also experienced a series of macro-economic shocks, which impacted adversely on the banking industry, exposing weaknesses in the governance structures, the industry also experienced a tighter regulatory and governance landscape with the enactment of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930), together with a stream of initiatives to further strengthen and stabilize the banking sector.

The study attempts to investigate the impact of corporate governance on the performance of local banks in Ghana. The study utilized a panel estimation method over the period 2008-2018. The estimation results of the study shows that even though board composition had a positive impact on local bank performance it was not statistically significant. Additionally, the impact of the number of women on the board of local banks (gender diversity) was positive but was not statistically significant different from zero.

However, the study found that the effect of the size of the board of local banks on their performance was positive and statistically significant at five percent level. Also, the study confirmed a non-linear relationship between the size of the board of local banks and their performance, particularly in an inverted U-shaped relationship. This implies that the increase of the size of the board has a positive effect on local banks performance but only to a certain point where any further increase has a negative effect on performance. The threshold value (optimum number) of members of the board of local banks was determined by the study to be nine (9). The study thus recommends that the regulator should encourage the appointment of women on the boards of local banks. Also, non-executive directors with in-depth industry expertise should be appointed unto the boards of local banks. Lastly, the study recommends the number of persons on the board of local banks should not go beyond nine (9) members.

CHAPTER ONE

OVERVIEW

1.1 Background

The job of banks is fundamental to any economy. They make available financing to business undertakings, access to installment frameworks and an assortment of retail money related administrations for the economy on the loose. In the first place, they improve the data challenges among financial specialists and borrowers by checking the last mentioned and guaranteeing proper use of the investors' assets. Second, they offer between worldly leveling of hazard that can't be expanded at a specific point in time alongside protection to investors against unforeseen utilization stuns. Third, financial institutions add to the development of the economy. Fourth, they have a fundamental influence on corporate administration. Their relative significance diverse differs considerably throughout most nations, and they are very vital to the economic structure (Allen & Carletti, 2008)

Throughout the years, the worldwide financial industry has been confronting disillusioning returns and languid development. For seven back to back years, its ROE has been stuck in a barely characterized range, between 8 percent and 10 percent—a level that most think about the business' expense of value. At 8.6 percent for 2016, ROE was down a full rate point from 2015. In addition, the industry's worldwide income development rate eased back to 3 percent in 2016, down from a yearly normal of 6 percent over the former five years (Chironga, Cunha, & De Grandis, 2018) Be that as it may, Africa is the worldwide financial industry's second-most gainful district: the ROE of its banks in 2017 remained at 14.9 percent, second just to Latin America and tantamount to different locales, for example, Emerging Asia and the Middle East. The ROE of African banks was more than twofold the 6 percent accomplished by banks in created markets. African banks' benefit in 2016 was imperceptibly

higher than in 2012, driven by improved edges—in spite of the fact that these increases were to a great extent counterbalanced by higher hazard costs (Chironga et al., 2018)

In spite of this great execution both as far as monetary part changes and financial development, money related markets in Africa are extensively less well-created than those somewhere else on the planet on practically all proportions of budgetary improvement (Green, 2013). Truth be told, the money related parts of most African nations remain very immature even by the guidelines of other friend low-pay nations, and the African budgetary advancement hole is gigantic; so is the monetary incorporation hole(Allen & Carletti, 2008). The advancement hole relates to both banking and non-bank frameworks.

Despite its less-created status, the African monetary part endured the emergency strikingly well, particularly when contrasted with other creating areas. There are a few purposes behind this result: first, the by and large feeble reconciliation with the remainder of the worldwide monetary segments implied the potential for direct infection was insignificant. Second, even in nations, for example, South Africa where the budgetary part is very much coordinated with the remainder of the world, disease impacts were negligible, particularly in the financial area, generally because of powerful guideline of the financial divisions in Africa(Kose, Prasad, Rogoff, & Wei, 2010). Third, frail money related extending may likewise have attempted to upgrade the versatility of the African budgetary part through decreased presentation (low portion of private segment credit with respect to GDP).

The worldwide money related emergency was a severe shock the world over, including Africa. It uncovered serious administrative holes and misshaped motivations in the banking and the generally speaking monetary framework, which prompted a development of hazard exposures by banks as well as "shadow" banks. This has impelled restored endeavors to

upgrade the versatility of the money related area by diminishing the recurrence and seriousness of future emergencies through among, different things, and the presentation of the Basel III accord. Also, aside from capital measures, there are presently benchmarks for supervision and observing of bank liquidity, which regularly emerges from a confuse between momentary bank obligation and long haul resources. A noteworthy element of the 2008 worldwide emergency was an unexpected evaporate of liquidity in the framework, which prompted a shutdown of the credit showcases in the US and past (Commission, 2017)

To improve the formative limit of fund, most African nations changed their money related parts between the late 1980s and the late 1990s, commonly as a bundle of the auxiliary change projects embraced by key Bretton Institutions. The changes involved the evacuation of credit roofs, progression of loan costs, rebuilding and privatization of state-claimed banks, the presentation of an assortment of measures to advance the improvement of private financial frameworks and money related markets. Going with these measures were bank supervisory and administrative plans, including the presentation of store protection in specific nations (Berger, Clarke, Cull, Klapper, & Udell, 2005)

(Honohan & Beck, 2007) contend that financial emergencies in Africa were fairly not quite the same as those exterior since emergencies on the mainland were brought about by administration related issues both in the banking and in the administrative frameworks. These emergencies made administrative specialists progressively traditionalist and ensuing changes taken helped the mainland improve the solidness of its financial exercises.

The financial business in Ghana has experienced a noteworthy move in center in light of the appearance of worldwide money related progression and development. This saw the passage of a few worldwide banks and new nearby banks into the part, expanding the quantity of

banks to thirty-four (34) as of December, 2016. In 2017, Bank of Ghana authorized three (3) new establishments to work as all-inclusive banks in Ghana: Construction Bank, The Beige Bank, and GHIL Bank Limited.

The multiplication of banks invigorated challenge, advancement, and improved monetary incorporation. The Ghanaian economy additionally encountered a progression of full scale financial stuns from both outer and residential sources. These stuns, including, unpredictable trade rates, high expansion and low Gross Domestic Product (GDP) development, affected unfavorably on the financial business, uncovering shortcomings in the administration structures of a portion of these organizations in the nation.

An Asset Quality Review (AQR) embraced by Bank of Ghana in 2016 recognized nine (9) banks as undercapitalized and requiring quick measures for recapitalization to anticipate any further stuns to the effectively pained industry. As a feature of endeavors to balance out the business, the Bank of Ghana started the execution of a complete arrangement of measures to address components recognized as the basic reasons for the issues in the business; and re-position the budgetary division as a noteworthy driver of monetary development in Ghana.

The business experienced an all the more firmly authoritative scene in last two (2) years with the foundation of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930) and the Credit Protection Act, 2016, trailed by a surge of various exercises to further sustain and settle the money related part. A bit of these key exercises fuses a development in the base capital necessities for banks, use of Corporate Governance, the Ghana Reference Rate, Mergers and Acquisitions and Capital Requirement Directive

Real reasons for bank non-execution or disappointment have been recognized as capital insufficiency, powerless supervisory and administrative system, non-performing credits,

insider advances, poor hazard the board practices, for example, loaning rehearses, government obstruction, inadequacies in interior bank procedure and poor corporate administration

As indicated by (Sanusi, 2010) the Central Bank of Nigeria recognized administration negligence inside banks as one of the real reasons for the financial emergency in 2007-2009. Sanusi noticed that in the sheets and official administration in some real banks in Nigeria were not well-prepared to run their foundations. Moreover, banks were efficient with open data on their activities in that capacity financial specialists were not able settle on educated choices on the quality regarding bank income, the quality of their asset reports or the dangers in their organizations.

The present financial industry size of Ghana has dwindled to 23 following the execution of the base capital and different changes by the Bank of Ghana. In light of the previous, the investigation tries to determine the effect of corporate administration rehearses on bank execution in Ghana.

1.2 Problem Statement

Good corporate administration is bit by bit being perceived as a noteworthy propeller of long haul speculation and has turned into a key topic in the money related world. Such administration has turned out to be imperative for any business with its most significant objective of boosting its presentation. The writing on this issue additionally covers proof of a affirmative connection amongst bank emergencies and it corporate administration level. It is contended that bank emergencies are a long haul outcome of a progression of awful corporate decisions. The sheets of governors of banks, seeking after the technique of making the banks remain applicable, take basic choices, for example, impetuses, execution targets, and

arrangement of inside controls. Subsequently, corporate administration is viewed as an imperative key to understanding institutional effectiveness and efficiency (Oteng-Abayie, Affram, & Mensah, 2018)

On the worldwide front, cases, for instance, Enron, WorldCom, Pacific Gas, and Electricity Company, and Barings Bank are normally referred to. In Ghana, Atobease Rural Bank, DKB Finance, Merchant Bank, and Noble Dream Microfinance are normally referred to occurrences of the negative repercussions of slight corporate structures.

The historical backdrop of bank disappointment in Ghana has been ruled mostly by indigenous banks. In 2000, the Bank of Ghana repudiated the financial licenses for two wiped out banks; Cooperative and Bank of Housing and Construction respectively. The financial business saw numerous changes in enactment and guideline to fortify the business against such disappointments.

Unfortunately, we have witnessed history repeat itself with the collapse of two local banks; Capital and UT Bank respectively in 2017, and the subsequent liquidation and consolidation of five (5) local banks in 2018. In spite of these phenomena, slight consideration has been given to unraveling the influence of corporate governance issues in the country. The few studies (Bopkin, 2013; Kyereboah coleman & Biekpe, 2006) which have considered this issue used sample period which was before the global financial crisis. Moreover, emerging areas in literature had paid more attention on how multiplicity in board gender influences bank performance and the non-linear association amongst the performance and board size. These areas are yet to be tested empirically in Ghana. The inquiry, therefore, attempts to discover the impact of business control rehearses on bank execution in Ghana. The examination time frame ranges from 2008 to 2018 on the fifteen (15) indigenous banks in the country

1.3 Study Goals

The central goal of this investigation is to ascertain the effect of corporate governance practices on bank performance in Ghana. The study is poised on uncover the following:

- To observe the influence of the composition of boards on bank performance in Ghana
- To analyze “the” non-linear association amongst “board size” and “bank performance”
- To discover “the” influence of board gender variety on bank “performance”.
- To observe the influence of ownership structure on “bank performance” in the country

1.4 Study Questions

- Does the structure of various bank board’s influence the performance in the country?
- Does the size of the board have a non-linear relationship with the bank performance in Ghana?
- Does board gender multiplicity have an effect on the performance of banks in country?
- Does ownership arrangement affect the performance of banks in country?

1.5 Importance of the Research

The discoveries of this investigation would be relied upon to contribute by upgrading the writing on corporate administration to incorporate its effect on Ghanaian banks' presentation, in order to prevent future appalling exhibitions of banks in Ghana.

The discoveries of this examination would be relied upon to make a huge commitment to financial specialists, sheets and senior administration of banks just as policymakers on the future ways to deal with the administration of banks.

1.6 Organization of the Research

The investigation would contain five sections. Part one presents the investigation where the issue explanation, explore destinations, examine questions and the noteworthiness of the examination are explained. Section two surveys the applicable writing, which is apropos to the examination. The exploration technique is laid out in section three. Part four talks about the consequences of the investigations of the information. Section five gives a rundown of the discoveries, suggestions, and end to the investigation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This part thinks about an audit of speculations and insightful works, which are fitting to the examination. The principal segment gives a meaning of corporate administration, the subsequent area thinks about the speculations of corporate administration, the third segment sees how bank execution is estimated, the fourth segment thinks about various investigations, which have observational examinations of the goals of the investigation, and the fifth segment closes the part.

2.2 Definition of Corporate Governance

The expression "corporate administration" fits an assortment of definitions. Different researchers and administrative organizations have given various portrayals of the term. The Cadbury Committee just depicts corporate administration as the idea by which organizations are sorted out and focused on. (Conyon, 1997) Notwithstanding, the Cadbury Committee further states that the suitable administration and control of organizations exists in the transmit of the chiefs of those foundations. The onus of investors in administration is to draw in the correct characters to the board and to guarantee themselves that the administration structure, which has been set up, is well-suited and adequate. The duties of the board comprise of plan of the organization system, coordinating the course for fulfillment of this procedure, observing administrative endeavors and being liable to the investors as relating to their commitments. The guidelines and conventions identifying with the particular ward and the composed goals of investors administer the exercises of chiefs.

Additionally, corporate administration signifies the private and open foundations, together with laws, guidelines and built up strategic approaches, which control the relationship, between corporate supervisors and business visionaries on one hand, and the individuals who put assets in organizations, on the other in a free enterprise economy. (OECD, 2001)

The country's Corporate Governance Procedures do's and don'ts, distributed by SEC characterizes commercial administration from the point of view of an advanced company as indistinguishable with "the practices and procedures used to coordinate and deal with the undertakings of a corporate body, with the object of adjusting the achievement of corporate goals, with the arrangement of corporate conduct to the desires for society, and responsibility to investors and different partners".

As shown by (Pagano, Panetta, & Zingales, 1998), corporate organization includes the flow of ownership, capital structure, regulatory inspiration plans, takeovers, top administrative staff, weight from institutional examiners, thing publicize contention, work feature competition, progressive structure, and associations that impact the strategy through which semi rents are dispersed. (Garvey & Swan, 1994) opine, organization oversees how the organization's topboss truly controls such contracts. (Shleifer & Vishny, 1997) explain corporate organization as the strategies through which banks of affiliations promise themselves of tolerating a yield on their endeavor. "Incredible corporate organization,, along these lines, wraps both endeavor (execution) and duty (conformance(La Porta, Lopez- de-Silanes, & Shleifer, 2002) are of the supposition that corporate organization is a social affair of instruments through which outside monetary experts (financial specialists) screen themselves against inside examiners (chiefs).

2.3 Corporate Governance Concepts

2.3.1 Agency Concept

Organization premise that gives clarification in regards to the way in which principals and operators inside the corporate setting communicate with one another. This hypothesis likewise tries to contribute with finding answers to issues that exist in the dealings amongst the various heads, chiefly the proprietors of organizations and those who are hired to oversee the daily running of the entity. Crafted by (Berle & Gardiner, 1968) gives the establishment of the organization hypothesis. The creators propose that the detachment among possession and control of huge partnerships offers supervisors the prospect to chase their very own self-interested advantages in front of the benefits of the proprietors. The issue emerging from this error is known as the organization issue. A fundamental thought behind the office problem is that there is the higher penchant for individuals to be covetous of satisfying their very own objectives and needs and not being set up to do without those parochial desires for the welfares of others. (Daily, Dalton, & Cannella Jr, 2003). A portion of the potential causes behind the organization issue are good danger, hazard avoidance, and profit maintenance.

Good Hazard: Moral peril follows when individuals seek after endeavors, that includes more serious hazard in light of the fact that another gathering expect the obligation made by those activities (Bergemann & Välimäki, 2008). Much of the time, organization officials will in general put resources into resources that best adjust to their very own arrangement of aptitudes, to expand both their value to the firm and the expense of supplanting the advantages. (Shleifer & Vishny, 1997). As indicated by (Choe & Yin, 2006), it is imperative to have choice centered agreements and stock-based agreements to reduce good percentage.

Hazard avoidance: Generally, supervisors are seen to be chance loath, and would have an inclination of choosing an activity with lower hazard and pay-off at whatever point looked with the vulnerability of result. This repugnance for hazard may, in any case, be in strife with certain investors who might need to go out on a limb with the desire that they would be sufficiently rewarded by getting greater yields.

Profit Retaining: To cure the organization problem,(Baysinger & Butler, 1985) opined that the top managerial staff could be a significant device for observing business officials. Inside the office system, the governing body is to serve the investors by administering the organization. This the board does through affirming the choices touched base at by the executives and giving direction on the execution of those choices. Analysts observe this job to be extremely fundamental and have accordingly directed numerous investigations in such manner (Barnhart, Marr, & Rosenstein, 1994; Bhagat & Black, 1999)

(Jensen & Meckling, 1976) who cause substantial commitments to this subject to portray an office association as "an agreement under which at least one people (the principal(s)) connect with someone else (the specialist) to play out some administration for their benefit which includes designating some basic leadership expert to the operator". Moreover, Jensen and (Meckling, 1976) affirm that if the two gatherings to the agreement are seeking after the best worth, there is a valid justification to accept that the specialist would not in any manner times perform activities that would be appropriate to the best enthusiasm of the head. The chief can limit deviations from his enthusiasm by properly boosting the operator and by acquiring observing expenses went for confining the freak endeavors of the specialist.

(Jensen & Meckling, 1976) hence recommended that so as to diminish the office issue, it is important to bring about specific expenses. These expenses are known as office costs which being characterized as the aggregate of the expense of observing administration (the

specialist); holding the operator to the head, and lingering misfortunes. Corporate administration instruments are in this manner set up to guarantee that the interests of investors and directors are not at fluctuation. This goes far to relieve office costs Jensen and (Bonin, Hasan, & Wachtel, 2005; Meckling, 1976) built up that legislature claimed banks are least effective. (Grigorian & Manole, 2002) demon started that private banks established after the start of the change are no more cost-productive than old banks. (Drakos, 2003) achieved the end that remote passage may enlarge the general execution of the financial framework.

To a certain extent, (Bonin et al., 2005) reverberation the general conclusion as respects to government-claimed banks, while (Grigorian & Manole, 2002) could consider the starter time frame during which one of the mandatory conditions for a remote bank to obtain a current bank was that it would not deliver in all cases joblessness. In certain models, the progress from the one-level financial framework to the privatized two-level financial framework was long. The old banks progressed toward becoming "private" banks all of a sudden in any case were staff heavy and their portfolios were small on the grounds that the design was benefit situated however to achieve the "plan". The organizations these banks offered credits to likewise were not effective or gainful. It took an extensive stretch during which both the private segment firms and the "privatized" banks were revamped. Comparably, (Crespi, García-Cestona, & Salas, 2004) investigated three sorts of possession: free business banks, subordinate banks, and reserve funds banks. They built up an antagonistic association among execution and administration mediation (changes in the board, expulsion of the Chairman, CEO rejection and mergers/acquisitions) for banks, yet the results change for each kind of proprietorship and each type of intercession in the Spanish financial industry. This insists the statement that "one size does not fit all". The results are dependent upon the idea of the issue that set off the mediation and whether the intercession was a reasonable one in that specific

setting. The various sorts of proprietorship may have limited the sorts of mediations that could have been utilized.

Regarding the idea of investors, it is a notable conviction that both square holders and institutional proprietors can to modify corporate conduct towards hazard. Especially, in the financial business, institutional possession has for the most part beaten individual and family responsibility for. In a couple of cases, holding firms are recorded on critical money related trades and have moved belonging, be that as it may, the impact of the changed ownership, being meandering, are presumably going to be obligated to the driving forces and impulses of the brief institutional owner. (Barry, Lepetit, & Tarazi, 2011) keep up that institutional money related pros can affect the possibility of corporate peril taking. (Hartzell & Starks, 2003) find that institutional possession fixation is decidedly related to the compensation for-execution affectability of official remuneration, while (Cheng, Hong, & Scheinkman, 2010) fight that institutional financial specialists are progressively advanced and offer a checking administration. The two reasoning are legitimate and are not mutually selective, nor does either guarantee great administration or hazard the board.

The investigations focusing on the root of the proprietor (remote versus household) find that remote banks are to be increasingly productive for the most part yet specificities of the nation of their task do have an effect on their exhibition. The discoveries of (Demirgüç-Kunt & Huizinga, 1999) outline that remote banks have higher edges and benefits in contrast with household banks in creating nations, while the turnaround is substantial in created nations. In examining the determinants of bank viability and execution, (Bonin et al., 2005; Grigorian & Manole, 2002) saw that remote asserted banks are altogether more cost-capable than family banks. With respect to age of a bank, (Kraft & Tırtıroğlu, 1998) found that as of late settled banks are less powerful yet give improved advantage execution than privatized or state-

guaranteed banks, while (Vujcic & Jemric, 2002) show that new banks are progressively beneficial.

Different observational investigations considering this issue have been distributed. Some of them offer cross country level proof and a few, the financial arrangement of explicit nations. The vast majority of them offer proof concerning some key firms in the United States and Britain or country specific association. Relatively minimal of such cross-country inquiries have been embraced to test into the effect of proprietorship on banking experiencing significant change nations. In spite of the fact that there are numerous kinds of concentrates on banking on the move countries, the majority of them focus on nations in Central and Eastern Europe, for example, Croatia (Kraft & Tirtiroğlu, 1998; Vujcic & Jemric, 2002); the Czech Republic (Fries & Taci, 2005; Weill, 2003) ; Hungary (Hasan & Marton, 2003) and Poland (Nikiel & Opiela, 2002; Weill, 2003)

The aftereffects of these assessments, which primarily mull over the association between bank ownership and execution, and the association among ownership and capability, are fairly changed. The revelations of (Hasan & Marton, 2003; Jemric & Vujcic, 2002) and (Weill, 2003) reveal that bank capability is vehemently associated with remote rather than state ownership, while (Nikiel & Opiela, 2002) note that outside banks are less advantage capable than family unit private banks. To end with, concerning a dynamically sweeping assessment of bank ownership, (Fries & Taci, 2005) locate that private banks are more capable than state-guaranteed banks, and that privatized deals with a record with predominant part remote (private) ownership are the most (least) beneficial. Offer ownership by chairmen (inside administrators) is another organization mechanical assembly which brings into plan the energy of the officials/board with those of financial specialists. The disclosures of (Alien & Cebenoyan, 1991; Brickley & Dark, 1987) and (Carter & Stover, 1991) reveal that offer ownership by bosses and boss is incredible to monetary experts of banks.

Observational composing looking into the effect of the board features, for instance, structure, creation, size, sexual direction, etc, gives rather dubious outcomes. (Pathan, 2009) utilizes a case of 212 gigantic US bank holding associations from 1997 to 2004. The revelations demonstrate that bank risk rots with board size; board opportunity, CEO power, and CEO esteem ownership. (Adams & Mehran, 2012) uses a case of 35 exchanged on an open market Bank Holding Companies in the U.S. over the 1986–1999 period and test the association between board organization and execution. Their disclosures show that board size is vehemently associated with execution.

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In a case of 69 sheets of immense business banks from Canada, France, the UK, Italy, Spain, and the U.S. from 1995 to 2005, (De Andres & Vallelado, 2008) developed that bank execution has an adjusted U-framed relationship with board size and the degree of outside boss. Utilizing a case of 41 banks, (Rowe, Shi, & Wang, 2011) further broadens the board elements and examinations the effects of different board factors on the Chinese bank execution. The revelations show that the degree of authority boss in the sheets has an in a general sense troublesome effect while the degree of offers held by the board has a basically extraordinary effect on bank execution. A few insightful assessments have watched out for some various characteristics of corporate organization in banks, for instance, board characteristics and CEO pay and ownership, for instance (Beltratti & Stulz, 2009; Erkens, Hung, & Matos, 2010; Minton, Taillard, & Williamson, 2011)

The size of the board has some effect, especially if the structure is impartially made out of free chiefs who might speak to lesser premiums and the premiums of the network, which the bank serves. Be that as it may, an increasingly fundamental and pivotal issue in the structure is whether the board individuals all alone and together can give autonomous and skilled observing of the board's hazard taking activities. In little manages an account with traditional financial exercises – loaning and store taking – this is commonly feasible, yet in bigger keeps money with perplexing exercises, finding an amalgam of capable people is testing.

In rising and rebuilding economies, ordinarily littler economies, the accessible pool of individuals who might be both fair-minded and skilled regularly is thin. In bigger,

progressively created markets, where chance taking exercises involve an increasingly multifaceted scope of items, bent of the board individuals is amazingly questionable – as was seen in the emergency and in different occasions where administration instrument crumbled. Banks in these business sectors are currently both too huge to come up short and too huge not to come up short. The extent and multifaceted nature of huge financial entities exercises are ken of most board individuals, examiners, and controllers.

Ability to perceive the dangers is diminishing, while the dangers are swelling. This brings up a critical issue of whether the conventional game plans of the supervisory board and the executives are as yet sufficient. (Beltratti & Stulz, 2009) fight that banks that were constrained by their sheets to leave on investor riches amplification before the emergency procured dangers that were comprehended to create investor riches, however were expensive post-emergency as a result of results that were not foreseen when the dangers were taken. (Erkens et al., 2010) look at the connection between corporate administration and execution of money related firms during the 2007/2008 credit emergency utilizing a global example of 296 monetary firms from 30 nations. Their discoveries demonstrated that organizations with progressively autonomous sheets raised greater value capital during the emergency. Conversely (Beltratti & Stulz, 2009) found that better corporate administration, for example an increasingly autonomous board to be decidedly associated with the banks' emergency execution find that offer proprietorship by supervisors and chiefs is profitable to financial specialists of banking institutions.

CHAPTER THREE

STUDY APPROACH

3.1 Overview

Section three lists the methods that would be utilized to accomplish the goals of the examination. Especially, this part envelops the exploration structure, the estimation strategy, the definition and the normal indications of the factors, the populace and test determination, information investigation and the wellsprings of information utilized in embraced the examination.

3.2 Study Plan

The inquiry embraces the elucidating and informative structures supplemented by a numerical study approach. For the most part, an exploration configuration includes a few components, for example, the kind of research approach, the inspecting system and size, information accumulation instruments, and the information investigation technique (Lin, Tan, & Geng, 2013). The examination configuration is in this way seen as the system set up to look for answers for the exploration issues in part one. Informative and expressive research structures would be actualized for this examination with the target of giving a far-reaching clarification of the connection between corporate administration and the exhibition of banks. This investigation likewise employed a quantitative technique by virtue of the way that the information for this examination is auxiliary information of yearly monetary reports tested banks used in this investigation.

3.3 Population and Sample Size

3.3.1 Population

The research population entails all twenty-three (23) deposit money banks given license by the Bank of Ghana to carry out banking services (Donkor, 2019)

3.3.2 Sample Size

Out of the 23 existing business banks starting at 2013, twenty

(18) are chosen as an example size. These 18 speak to 78% of the 23 banks which is a reasonable agent for good investigation

(Lin et al., 2013)The financial business is to a great extent overwhelmed by the four greatest banks, in particular Ghana Commercial Bank (GCB), Standard Chartered Bank (SCB), Barclays Bank (BBG) and Ecobank (EBG). The banks are for the most part painstakingly picked because of openness of information to embrace the examination.

3.4 Estimation Technique

The study would utilize a panel estimation method since the study would cover a number of banks over a certain period of time. To operationalize the aims of the study, a Fixed Effect or Random Effect model of the panel estimation approach would be used. The choice of the appropriate panel estimation method would be contingent on the results of the Hausman test that would be used to determine which panel estimation method to rely on for analysis.

A general panel framework is thus specified as follows:

$$y_{it} = \alpha + x_{it}\beta + \varepsilon_{it}$$

Where

the reliant variable is y

α is the persistent tenure

x is the vector of non-reliant variable

β is the vector of coefficients of the independent variables

i connotes the particular unit in the study

t connotes the time period

ε is the error term

However, since the study aims to establish the role of corporate governance on the performance of some banking institution in the country, equation (1) is specified as:

$$BP_{it} = \alpha + Z_{it}\beta + G_{it}\delta + \varepsilon_{it}$$

Where

BP is a measure of bank performance

Z Denotes the direction, for bank size, the proportion of fixed resources for complete resources and bank obligation structure which may have a course on bank execution.

G is a vector of corporate administration factors, for example, board size, board structure, division of CEO, board sexual orientation decent variety and possession structure

a vector of control factors, for example, bank size, the proportion of fixed resources for absolute resources and bank obligation structure which may have an orientation on bank execution.

G is a vector of corporate administration factors, for example, board size, board structure, division of CEO, board sexual orientation assorted variety and possession structure

δ is a vector of the coefficients of the corporate governance indicators.

3.4.1 Hausman Specification Test

The Hausman Specification Test is a test, which compares an estimator θ_1 that is known to be consistent with an estimator θ_2 that is efficient under the assumption being tested. The null hypothesis is that the estimator θ_2 is indeed an efficient (and consistent) estimator of the true parameters. If this is the case, there should be no systematic difference between the two estimators. If there exists a systematic difference in the estimates, you have reason to doubt the assumptions on which the efficient estimator is based. The Hausman statistic is distributed as χ^2 and is computed as

$$H = (B_c - B_e)' (V_c - V_e)^{-1} (B_c - B_e)$$

Where

B_c is the coefficient vector from the consistent estimator

B_e is the coefficient vector from the effective estimator

V_c is the covariance matrix of the efficient estimator

V_e is covariance matrix of the efficient estimator

3.5 Definition of Variables and the Expectation Signs

Bank Performance (BP): Bank Performance is the reliant unit. This is quantified by the Return on Assets. This is computed by dividing profits before interest and tax payments by the total asset. Even though in literature, apart from ROA, most authors have also used Return on Equity (ROE), the study prefers to utilize ROA. This is because it turns out that banks with lesser weight (higher equity) will generally state higher but it lowers ROE. In

addition, an evaluation of ROE neglects the greater risk connected to high influence and financial leverage, which is in most cases governed by regulation. Therefore, ROA stands out as a vital ratio for the assessment of banks, since it indicates the return the management of a bank is making on its assets (overall earnings power) (Bopkin, 2013).

Board Size: This is a governance indicator, which considers the size of the bank's board. It is computed by summing the number of persons on the board of a particular bank. Literature posits that the association amongst its performance and board size is non-linear. In other words, there is an inverted U link amongst bank performance and size of the board. Thus, the relationship amongst board size and performance of the bank may be positive up to a certain point then negative as the size of the board increases. This assertion would be tested by the inclusion of the square of the board size in the bank performance equation.

Board Composition: This is another governance indicator, which considers the percentage of executive directors to the non-executive directors. It is estimated by allocating the total sum of outside directors by entire summation of directors. This variable measures the degree to which affiliation to the bank influences the decision of the bank.

The duality of CEO: This is also a conventional governance indicator, which measures whether an individual serves as both the CEO and the chairperson of a bank. This variable would be measured as a dummy variable, which assumes the value of 1, if the CEO combines as the board chairperson and 0 if there are different people occupying the two positions of CEO and board chairman.

Ownership Structure: This variable is also of interest to the study. It measures how the type of ownership influences bank performance. It is captured as a dummy variable where 1 represents a foreign bank and 0 represents a domestic bank.

Board Gender Diversity: This is a governance indicator, which looks at the average women representation on the board of a bank.

Bank Size: This variable is a standard indicator in the analysis of bank performance. It is measured by the value of the asset base of the bank.

Bank Debt Structure: This variable is also another standard indicator when analyzing the determinants of bank performance. It would be captured by the total of debts against total assets including both short and long term

Fixed to Total Assets Percentage: Another typical variable employed in the analysis of bank performance is the fixed to total assets percentage. This indicator measures how much of the assets base is made of fixed and for structures and equipment that matter.

3.6 Data Source

The research makes use of secondary data which is sourced from the yearly accounts of the various banks. The research stretches from 2008 through to 2018 on the fifteen (15) local banks. The variable for which data is collected is explained in the preceding section.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 Overview

Unit four depicts aftereffects of the investigation and discourse of the estimations of the examination. The main segment investigates the enlightening measurements of the factors utilized in the examination. The subsequent area considers the relationship grid of the factors incorporated into the investigation. The third segment centers on perceptions at the Hausman test to choose the fitting board estimation technique to base the understanding of the outcomes on. The fourth segment takes a gander at the estimation consequences of the examination.

4.2 Summary Statistics

4.2.1 Expressive Indicators

Table 4.1: Summary Figures of the Variables used in the Study

Variable	Obs	Mean	Std. Dev.	Min	Max
Bank Performance	44	0.025665	0.027613	-0.04695	0.091406
Debt Structure	44	0.889854	0.060402	0.818987	1.202775
Fixed-Total Asset Ratio	44	0.037961	0.026859	0	0.142816
Asset Size	44	20.78224	0.92421	18.57458	22.25573
Size of Board	43	8.581395	1.707582	6	12
Gender Diversity	43	1.465116	0.984374	0	3
Composition of Board	43	0.678388	0.109311	0.428571	0.857143

Source: Author's own computation

Table 4.1 presents the outline insights of the factors to be utilized in the examination. From table 4.1, the bank execution as estimated by profit for resources (ROA), has a normal of around 0.026. Its most noteworthy worth is 0.091 while its least worth is - 0.047. The standard deviation for bank execution is 0.028. For the obligation structure, with an average of 0.889, a standard deviation of 0.06, a greatest estimation of 1.2027 and a base estimation of 0.8189. Fixed-all out resource proportion has an average of 0.037 with a standard deviation of 0.268. In addition, its most astounding worth is 0.1428 while its least worth is zero (0). For the benefit size/base, the normal worth is 20.782, the most extreme worth is 22.255, the base worth is 18.57458 and the standard deviation is 0.924. Thinking about the size of the board, the base worth is 6, the greatest worth is 12, the mean is 8.5813 and the standard deviation is 1.7078. Sex assorted variety has a most extreme estimation of 3 and a base estimation of 0. In addition, its mean is 1.465 and its standard deviation is 0.9843. The board structure has a average of around 0.68 and a standard deviation of roughly 0.11. The most elevated worth and least estimation of the arrangement of the board are 0.86 and 0.43 roughly.

4.2.2 Association Matrix

Table 4.2: Association matrix of the Variables

	Return on Asset	Debt Structure	Fixed-Total Assets	Assets	Size of Board	Gender Diversity	Board Composition
Return on Asset	1						
Debt Structure	0.0163	1					
Fixed-Total Asset Ratio	-0.1339	-0.0094	1				
Asset	0.3173*	-0.2016	-0.4365*	1			
Size of Board	0.4208*	-0.1390	0.0771	0.4857*	1		
Gender Diversity	0.0588	-0.1232	-0.3809*	0.3398*	0.5010*	1	
Board Composition	0.2806*	-0.1242	0.4063*	0.1854	0.7239*	0.4657*	1

*Source: Writer's own calculation, * denotes $p > 0.1$*

Table 4.2 depicts the connection lattice of the factors utilized in the investigation. As indicated by the table, bank execution as estimated by profit for resources (ROA) is decidedly related with obligation structure, resource base, size of the board, sexual orientation assorted variety and sythesis of the board. The connection coefficient for these factors is 0.0163, 0.3173, 0.4208, 0.0588 and 0.2806 individually. Be that as it may, the connection coefficient for resource base, size of board and structure of board are the factors which have factually noteworthy positive relationship with bank execution. They are for the most part measurably huge at 10 percent. The variable with the most astounding positive relationship (0.4208) with bank execution is sexual orientation decent variety while the variable with the least positive connection with bank execution is obligation structure (0.0163). The relationship coefficient for fixed-all out resource proportion is - 0.1339. In any case, this outcome isn't factually noteworthy

4.2.3 Hausman Test

Table 4.3: Hausman Test for Model Selection

Coefficients	b (Fixed)	B (Random)	b-B (difference)	sqrt(diag(V_b-V_B)) S.E
Debt Structure	-.019262	.0256314	-.0448934	.0160562
Fixed Total- Asset Ratio	-.2841018	-.6576802	.3735783	.0418646
Log (Assets)	0.8193687	1.122702	-0.3033337	0
Board Size	.1116602	.050326	.0613342	.0101794
(Board Size) ²	-.006541	-.0025223	-.0040188	.0007433
Gender Diversity	.004905	-.01645	.021355	.0054352
Composition of Board	.0539618	.1297728	-.0758109	.0186756
b= consistent under Ho and Ha; obtained from xtreg				
B= inconsistent under Ho, efficient Ha; obtained from xtreg				
Test for Ho: Difference in coefficient not systematic				
chi2(11) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 22.34, Prob>chi2 = 0.0022				

Basis: Writer's own calculation

The Hausman test gives a Chi-square measurement of 22.34 with a p-estimation of 0.0022. In this way, we neglect to dismiss the invalid speculation of unsystematic contrasts of coefficients at all degrees of hugeness. This suggests the fixed impacts model is a proficient estimator of the information when contrasted with the arbitrary impacts model. The Hausman

test was not one-sided towards the Random Effects model in light of the fact that the Fixed Effects coefficients and Random impacts coefficients have enormous contrasts. Consequently the examination embraced the Fixed Effects Model.

4.3 Discussion of Results

Table 4.4: Estimation Results on the Determinants of Bank Performance

	Random Effect	Fixed Effect
	Bank Performance	Bank Performance
Debt Structure	0.0256 (0.0615)	-0.0193 (0.0635)
Fixed-Total Asset Ratio	-0.6577 (0.2537)***	-0.2841 (0.2571)
Log(Assets)	0.0016 (0.0059)	0.0048 (0.0052)
Size of Board	0.0503 (0.0233)**	0.1117 (0.0254)***
(Size of Board) ²	-0.0025 (0.0013)*	-0.0065 (0.0015)***
Gender Diversity	-0.0164 (0.0061)***	0.0049 (0.0082)
Composition of Board	0.1298 (0.0684)*	0.0540 (0.0709)
Constant	0.6927 (0.1849)***	0.4522 (0.1605)***
<i>N</i>	42	42
<i>R</i> ²	0.34	0.52

*Source: Writer's own calculation, *** denotes $p > 0.01$, ** denotes $p > 0.05$, *denotes $p > 0.1$. Standard deviations are in parenthesis.*

Table 4.4 presents the results of the panel estimation of the determinants of bank performance with particular reference to corporate governance indicators. Since the Hausman test indicated that the fixed influence model is favored to random effect model, interpretation of the results would be made from the former. The R-squared given in the estimation table is 0.52. This shows that the variations in the independent variables (the factors of bank performance), accounts for 52 percent of the variations in the dependent variable (bank performance).

As indicated by the estimation results from the fixed impact model, obligation structure adversely affects bank execution. In particular, if the obligation structure increments by 1 percent, the bank execution as estimated by the arrival on resources diminishes by 0.01 percent. This outcome repudiates the finding of (Coleman & Biepke, 2008). In any case, this outcome isn't factually critical.

Besides, the fixed-total asset ratio has an adverse effect on bank performance. In particular, when the fixed-total asset ratio increases by 1 percent, bank performance reduces by 0.28 percent. This result is not in agreement with (Coleman & Biepke, 2008). This result is nevertheless statistically insignificant.

Furthermore, the size of the assets of the local banks exercises an affirmative influence on bank performance. Thus, when the asset base increased by 1 percent, the bank performance increases by a negligible 0.005 percent. This outcome is in conformity with the findings of (Coleman & Biepke, 2008). This estimation outcome is however not significant statistically.

Likewise, the size of the board has a confirmed impact on the bank execution of the local banks in the nation. This outcome is factually critical at 1 percent. In particular, when the quantity of individuals on the leading body of household banks increments by one individual, the bank execution as estimated by profit for resources increments by 0.11 percent. This

outcome is in consonance with (Belkhir, 2009) The estimation results likewise affirm the non-straight connection between board size and bank execution. In this manner, the association among board size and bank execution is quadratic. The co-effective on the board size squared is $- 0.0065$. The relationship among board size and bank execution is subsequently a rearranged U formed. This outcome is in congruity with the exploration result of (De Andres & Vallelado, 2008). The figured edge an incentive for the board size is 8.59 which is around nine (9). This infers the quantity of people on the leading group of nearby banks ought not to surpass nine (9). Concerning relationship between sexual orientation decent variety and bank execution, there exists a positive connection. This suggests when the quantity of females on the board executives of nearby banks increment by one individual, the bank execution of household banks increments by around 0.005 percent. This outcome is anyway not critical measurably. The discoveries of (Ong, Ng, & Mohammad, 2018) additionally demonstrated that there is no measurably critical relationship between sexual orientation assorted variety and bank execution. This may be because of the modest number of ladies on the leading group of most neighborhood banks.

Concerning the association amongst board composition and bank performance, there is a affirmative association. In particular, when the number of non-executive members of the board relative to the executive members increase by one person, the bank performance increases by 0.05 percent. This outcome is nevertheless not statistically significant. This might be due to the lack of industry depth and expertise of the non-executives to help them in be effective in their supervisory and monitoring role. The insignificant result agrees with findings such as (Adams & Mehran, 2012; Belkhir, 2009)

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 Overview

This section brings a close to the study on the role of corporate governance on Ghanaian local banks. It comprises mainly of the concise findings and the policy sanctions of the research.

5.2 Summary of Findings

Good corporate administration is bit by bit been perceived as a noteworthy propeller of long haul venture and has turned into a key subject in the money related world. Such administration has turned out to be vital for any business with its most significant objective of boosting its exhibition. The writing on this issue likewise covers proof of a positive relationship between the level of corporate administration and bank emergencies. It is contended that bank emergencies are a long haul result of a progression of terrible corporate decisions. The leading body of governors of a bank, seeking after the methodology of making the bank remain important, take basic choices, for example, motivating forces, execution targets, and arrangement of inner controls. Subsequently, corporate administration is viewed as a fundamental key to understanding institutional effectiveness and profitability (Oteng-Abayie et al., 2018)

On the worldwide front, cases, for example, Enron, WorldCom, Pacific Gas, and Electricity Company, and Barings Bank are normally referred to. In Ghana, Atobease Rural Bank, DKB Finance, Merchant Bank, and Noble Dream Microfinance are ordinarily referred to instances of the negative repercussions of frail corporate structures. In July 2018, the Bank of Ghana likewise referred to corporate administration rehearses as the basic factor for the breakdown of seven business banks in Ghana somewhere in the range of 2016 and 2018.

This examination in this manner, tried to address the accompanying inquiries:

Does the composition of boards of banks influence the performance of banks in Ghana?

Does the size of the board have a non-linear relationship with the bank performance in the country?

Does board gender diversity have an influence on the performance of banks in the country?

From the static panel estimate technique, the inquiry found out that:

The organization of boards of indigenous banks in Ghana positively affects the exhibition of neighborhood banks in Ghana. In particular, when the quantity of non-official chiefs with respect to the quantity of official executives increments by one, the presentation of neighborhood banks as estimated by profit for resources (ROA) increments by 0.05 percent. Nonetheless, this result isn't factually huge. This may be because of the reality the non-official chiefs are dispossessed of the fundamental business profundity and mastery to be powerful in the checking and supervisory obligations.

The size of the board in any case positively affects bank execution. Especially, when the size of the leading body of neighborhood banks increments by one individual, the bank execution as represented by profit for resource increments by 0.11 percent. The estimation results additionally settled a non-direct association amongst board size and bank execution. This suggests the association among board size and bank execution is a modified U shape. This suggests when board size builds, it positively affects bank

execution to a limited extent, at that point bank execution decreases as board size increment. Specifically, the edge worth is roughly nine (9). Consequently, the size of the sheets of neighborhood banks ought not to go past nine (9) people.

Also, sexual orientation decent variety as estimated by the number of ladies on the board positively affects bank execution of nearby banks. Especially, when the quantity of ladies increments by one, bank execution increments by 0.005 percent. Be that as it may, this outcome isn't measurably critical.

5.3 Policy Commendations

The policy recommendations proffered by this study stem directly from the findings of the study which are in line with the research objectives of the study. The following are therefore the prescriptions which the study deems fit to improve the benefits of corporate governance on local banks in Ghana:

- The research findings indicated even though board composition had an affirmative effect on the performance of local banks, the impact was not statistically significant. Since this result might be due to the dearth of industry depth and expertise of the non-executive directors, it is recommended that legislation should be enacted to govern the appointment of non-executive directors unto local bank boards. Particularly, non-executive directors with at least 10 years of experience in the financial, banking and allied sectors should be allowed to serve on the boards of local banks.
- It also found out that the association amongst board size and bank performance is an inverted U-shaped. The threshold value which was computed as 8.59, which is approximately nine (9). Therefore, the study favours increasing the size of boards of local banks in Ghana to better bring to bear their supervisory and advisory role on the

bank performance. However, the study recommends that the number of persons to be on the boards of local banks in Ghana should not exceed nine (9) since that would have a detriment impact on bank performance.

- The study indicated increasing the number of women on the board of the local bank has a positive but insignificant effect on bank performance. Since the number of women on boards of local banks is very low, the study suggests that local banks should be incentivized to include more women on their boards. Moreover, the government can go a step further by promulgating legislation to encourage the appointment of women on the boards of local banks.

5.4 Limitation and Further Research Areas

The examination was obliged by time and far reaching information to embrace a thorough investigation. Different investigations can take a gander at how the instruction and the experience of executives can as corporate administration pointers impact the exhibition of nearby banks in Ghana. In addition, this investigation can be reached out to Sub-Saharan African nations.

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