

**UNIVERSITY OF GHANA BUSINESS SCHOOL**

**DEPARTMENT OF FINANCE**

**LONG ESSAY**

**TOPIC: THE EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL  
PERFORMANCE OF AN ORGANIZATION: THE CASE OF SOME GHANAIAN LOCAL  
BANKS**

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**A LONG ESSAY SUBMITTED TO THE DEPARTMENT OF FINANCE,  
UNIVERSITY OF GHANA BUSINESS SCHOOL, UNIVERSITY OF GHANA, LEGON IN  
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF AN MSC  
DEGREE IN ACCOUNTING AND FINANCE**



**AUGUST, 2019**

## **DECLARATION**

I hereby declare that this submission is solely produced out of my own effort and not the work of anyone, neither does it contain any document which has been accepted for an award of any kind. Except where due acknowledged, references and quotations which serve as source of information for this work. It is the product of the undersigned towards the award of a Master's of Science degree in Accounting and Finance.

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## **CERTIFICATION**

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

.....

**DR. OBI BEKO DAMOAH**  
**(SUPERVISOR)**

.....

**DATE**

## **DEDICATION**

This work is dedicated to God Almighty for His support, divine favor and mercy in helping me complete my Masters of Science in Accounting and Finance successfully. I further dedicate this work to the lovely father of my son Daniel Obeng Amoako Larbi, our adorable son Nana Kwesi Nhyiraba Obeng Amoako, and my mother Mrs. Elizabeth P. Glover-Quartey for their love, understanding and immense support for the successful completion of this project work.

## **ACKNOWLEDGEMENT**

In the pursuit of my Master's degree, this project work could not have come into fruition without the help of many persons who contributed in various ways to make it possible. First and foremost, a special thanks to my Supervisor Dr. Obi Beko Damoah whose guidance, supervision and critique shaped the work into a meaningful and presentable project. He went beyond the ordinary to offer me effective and efficient supervisory direction right from the beginning to the end of this study.

I would also like to acknowledge the Management and Staff of Air Commerce Forex Bureau Limited which is a wholly owned subsidiary of Ghana Airports Company Limited, the head Mr. Henry Richard Addai, Daniel Larbi of Accounts, Administrative Department and the Tellers for granting me flexible working hours to enable me further my education and supporting me in the course of conducting this study. Edbert Azumah Assistant Manager, Project Department Ghana Airports Company Limited, Nicholas Atowu Ampoh Marketing / Depot Supervisor of First Deepwater Discovery Ghana Limited Oil and Gas and Richard Asante of Guaranty Trust Bank for providing me with data and equipment throughout this work.

Also deserving special mention are my course mates Saeed Luqman, Yaw Bamfo-Dabrah, Francis Agordotse, Kofi Danso and Evans Akpah Teaching Assistant, University of Ghana Public Health for their critiques and contribution in shaping the final output of my long essay.

Finally, my deepest appreciation goes to my father Mr. Malcom P. Glover-Quartey, my mother Mrs. Elizabeth P. Glover-Quartey, my siblings Theodora, Alethea, Sophronia and Gifty for their

advice, encouragement, understanding and unflinching support that put me in the driving force to have this study completed.

## **ABSTRACT**

This study sought to ascertain how corporate governance practices affect the performance of commercial banks in Ghana, by focusing on solvency and liquidity perspectives. Quantitative research approach was adopted for study. Secondary data source which was obtained from the financial statement of five selected Commercial Banks in Ghana from 2012 to 2017. It was found from the study that, board size has significantly negative effect on both the financial performance and solvency of Commercial Banks in Ghana. Also, the study found Committee Independency and Board Diversity to have significantly positive effect on financial performance of Commercial Banks in Ghana. The study results necessitate that it is prudent for Commercial Banks in Ghana not to place too much emphasis on the board size but should rather place more on quality of board membership. Stakeholders or shareholders of the respective Commercial Banks in Ghana should take into account the likely impact of a board composition on the overall performance of the firm. The board must be diversified in term of executive and non-executive composition.

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## CHAPTER ONE

### 1.0 Introduction

Corporate Governance is broadly defined as the laws, rule and regulations, and an acceptable organizational practice of both private and public institutions that governs the relationship between managers of a business and its investors. Tricker (2015) referred to Corporate Governance as "a way power is exercised over corporate Entities". Corporate Governance therefore comprises the activities of the board and its relationship with shareholders, with employees and other relevant stakeholders. The difference executive management and corporate governance has been highlighted by some scholars. According to Tricker (2015), executive management see to the running of the day to day activities of the business whilst Corporate Governance sought to ensure appropriate management of the organization.

Relatively, the concept of Corporate Governance is quite an old concept with regards to financial research. Shleifer and Vishny (1996) noted that, the earlier study relating to Corporate Governance concentrated on the ownership structure and structural means of cost minimization of organization. The focus and concentration has changed since the collapse of some big corporations in the United State of America such as Enron and World Call. Following the collapse of these corporations, the regulations formulated has resulted in shaping research in the area of Corporate Governance. According to Attiya and Robina, (2005), Corporate Governance clearly states out owners of the organization, and stipulates rules regarding economic return disbursement among shareholders, managers, employees and other relevant stakeholders.

Different scholars define Corporate Government in a different way. For instance, whilst some scholars refer to Corporate Governance as a means where management of an organization is

accountable to only shareholders, others expanded the responsibility of management to the entire society. According to Mohanty (2003), the American system observes corporate governance as relationship between shareholders and various classes of creditors. However, Shleifer and Vishny (1997) refer to corporate governance as means where the suppliers of funds to the corporation are certain of getting returns on their investment. Likewise, La Porta et al. (2000) define corporate governance as a process of setting measures and mechanisms to safeguard the investment of outsiders against exploitation by insiders. In this case, the insiders refer to managers and shareholders involve in running the corporation.

The relationship that exist between observing good corporate governance and the financial performance of a corporation has been one of the controversial issues. As a result, it has received much attention across the globe especially after the financial crises of Asia in 1997 (Nguyen and Nguyen, 2016). According to Tricker (2015), the global financial crises in 2007 which affects the economy of most countries globally has reiterate the essence of corporate governance policy adherence. It further raises a question of whether or not a good corporate governance has the tendency of improving the financial performance of an organization. Bhagat and Bolton (2008) noted that, an improved corporate governance of an organization affects its performance positively whilst a weak corporate governance result into low investors confident which in turn prevents outside investment. As indicated by Roman and Rountree, (2010), good corporate governance is very vital for firm's performance improvement, guarantee the right of investors, improve the investment atmosphere and boost economic growth.

### **1.1 Problem Statement.**

Good corporate governance policy formulation and practices has been of great concern to both developed and developing countries. It became even more essential after the collapse of some giant corporations in United State of America as well as the global financial crises. According to Solomon (2010), different theories have been set to explain corporate governance in developed nations. Jensen & Meckling, (1976) noted a theory called agency theory which states that, corporate governance aims at minimizing the tendency of conflict between managers and shareholders. There is another theory also known as stakeholders' theory which explains governance structure, since organizations are made up of stakeholders rather than only shareholders.

Several empirical studies have been conducted in the area of corporate governance policy and practices in developed countries and some emerging economies. According to Adams & Mehran (2008), there exist enormous research which investigated the relationship between corporate governance and organizational performance. It emerged from almost all these researches that, good corporate governance performance plays a very essential role in organizational performance. As noted by Mishra and Mohanty (2014), good corporate governance has positively significant effect on firm's performance.

Despite the enormous academic research in developed economies regarding relationship between corporate governance policy and practices, developing countries including Ghana lack enough studies in this field of research. Organizational performance has been very abysmal in developing countries and if proper research is conducted into such occurrences, it may be due to poor corporate governance.

## **1.2 Study Objectives**

The purpose of this study is to investigate the impact of good corporate governance policy and practices on the financial performance of Ghanaian firms. Specifically, the study sought to:

- I. Examine the relationship between board size and financial performance of Commercial Banks Ghana
- II. Find out whether separation of CEO from board chair can enhance financial performance of Commercial Banks in Ghana.
- III. Determine the influence Committee Independence has on financial performance of Commercial Banks in Ghana.

## **1.3 Research Question**

- II. Does board size affect firm's financial performance of Commercial Banks in Ghana?
- III. Does separation of CEO from board chair improve financial performance of Commercial Banks in Ghana?
- IV. What influence does Committee Independence has on financial performance of Commercial Banks in Ghana?

## **1.4 Significance of the Study**

The significant of this study can be derive from the essence of good corporate governance of organizational financial performance. Elsewhere in the developed economy, there are several empirical evidences of positive effect of good corporate governance of firm's financial

performance. However, in our part of the world, the empirical research with regards corporate governance and firm's financial performance is very scanty. The rampant collapse of companies in Ghana and the recent collapse of the seven commercial banks have been linked to weak corporate governance.

It is therefore envisaged that; the outcome of this study will inform policy decision to curb the rate at which companies collapse in the country. This will safeguard the strong economic fundamentals as well as shareholders' investment. Also, the result from the study will bridge the literature within the subject area and add to existing literature.

### **1.5 Methodology.**

The study sought to make use of quantitative method to attain its research objectives. Specifically, the study will use multiple regression and correlation for its analysis. Data will be drawn from both primary and secondary sources. Questionnaires covering the objective will be designed and distributed to ten local banks within greater Accra. The collected data will be arranged and SPSS will be used to run multiple regression.

In total, the study will make use of 50 primary data collated from 10 banks where five (5) top level management will be expected to complete a questionnaire.

### **1.6 Organization**

Chapter one will be introduction, whilst chapter two will review both empirical and theoretical literature on the subject area, Chapter three will focus on the methodology used in

the research and Chapter for will be discussion of results. Finally, conclusion and recommendation will be done in chapter five

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction.**

This chapter consist of various sections which sought to provide theoretical framework of the study and empirical literature to give in-depth review of existing researches done in related area. The practice will examine and evaluate the existing literature as it underscores the focus of this study. This include a study on Concepts and Principles of Corporate governance, Ownership structure and firm's performance, characteristics of board of Directors and Organizational Performance, Corporate governance issues in developing, Corporate Governance in Ghana, and finally empirical research on Corporate Governance and firms Performance.

#### **2.1 Concept of Corporate Governance.**

There exist two school of thoughts with regards to what is referred to as corporate governance. We have the narrow perspective of Corporate Governance which view corporate governance as serving the interest of just shareholders whilst there is a broader perspective which observe corporate governance as satisfying the interest of all stakeholders include employees, suppliers, customers and the government (Gallian, 2006; Stenberg 2004). Gillian further noted that, diverse school of thoughts and their peculiar definition of corporate governance based on the epistemological assumptions that underpins the concepts.

Shareholders perceive corporate governance differently from how stakeholders perceive corporate governance. According to Marashdeh (2014), shareholders perceives corporate governance as the principal's incentive to maximize their value, however stakeholders perceive the concept in terms of controlling mechanisms to regulate and maintain organizational operations. Enlightening on these perspectives, Gillan and Starks (1998) express corporate governance as a broader concept ranging beyond management however, it includes the systemic control, rules and regulations of firms, in effect, dictates corporate direction, involvement in executive decision, supervision and accountability.

Sheifer and Vishny (1997) defined corporate governance from a mitigating agency problem perspective which they refer to as dealing with a way by which suppliers and financiers of the organization assure themselves of getting return on their investment. Because it becomes practically impossible for shareholders of a company to run day to day activities of the corporation, they delegate such duties to an agent to oversee the day to day operation of the corporation in their interest. With reference to the above comment by Sheifer and Vishny, Keasey, Thompson and Wright (2005) defined corporate governance as both institutional and market-based mechanism, which induce self-centeredness controllers of an organization (Managers and employees) to make decisions which maximize the value of the corporation to its owners (Shareholders).

Despite the extensive nature of Keasey et al's (2005) definition of corporate governance, it has been criticized by Denis and McConnell (2003) for its vagueness and lack of theoretical underpinning to prove its hypothesis. Therefore, Denis and McConnell (2003) went ahead to give their definition based on the agency theory that permits the conceptualization of the relation existing between organizational performance and organizational structure. They

noted that, any understanding of organizational governance should openly indicate that shareholders own the corporation. Denis and McConnell are of the view the much emphasis be lied on shareholders' interest.

OECD stipulates five principles of Corporate Governance namely: Shareholders right, equitable treatment of shareholders, the role of stakeholders, disclosure and transparency and the responsibility of the board. Every good corporate governance framework must seek to protect the interest and rights of shareholders. Also, a good corporate governance framework must treat its shareholders equitably irrespective of the percent of share an individual holds in the organization. A good corporate governance framework must recognize the interest and rights of stakeholders as stated by law and inspire dynamic co-operation amongst corporations and stakeholders in creating wealth, jobs, and the sustainability of financial soundness. Trust is really vital in operation of an organization and this can be instilled by transparency. Therefore, a good corporate governance must ensure that information relating to the corporation like, financial standing of the organization, performance and governance are disclosed on time and accurately. Finally, a good corporate governance framework must ensure a strategic guidance of the corporation, the efficient evaluation of management by the board, and the board's accountability to the corporation and its stockholders.

## **2.2. Ownership Structure and Firm Performance**

Most econometric research done in corporate governance is concern with the relationship between various categories of measuring organization performance and the variables that define the quality of governance like ownership composition. Major factors influencing

corporate governance of an organization consist of: ownership structure, composition of board (level of dependence on management), equity structure and managerial compensation. There have been concentration on finding out the impact corporate governance has on organization's performance. A good corporate governance can affect an organizational performance whenever conflict of interest sets in between owners (shareholders) and management of the corporation. In the case of management ownership conflict, agency challenges manifest itself in management's lower effort and unproductive investment.

According to Shleifer and Vishny (1997), a good corporate governance minimizes "control right" stockholders and creditors confer on management, increasing the possibility of managers investing in positive net present value projects which leads to improvement in organizational performance. Bebchuk, (2005) argued that, the outsiders (non-managers) possess two major instruments to counterweight the power of insiders (management): the instilment of good corporate governance with quality regulatory and legal environment that discourages unfavorable actions by insiders (management). Once a company is committed to this, it permits affected stakeholders to challenge insider through judicial means.

The ownership structure of a firm is central distinguishing characteristics of financial systems. In the literatures surrounding corporate governance, much concentration is given ownership structure to be able to deliver a good and effective corporate governance. According to Stiglitz (1985) the existence of large shareholders may curd too much managerial discretion, minimize agency and improve performance. In theory the effect ownership concentration on organizational value is certainly not definite. Shleifer and Vishny (1986) indicate that shareholders concentration raises organizational value. However Huddart (1993) noted a reversed outcome due to risk averse large shareholders.

There is a trade-off existing between firm's control and liquidity. When there exist incentive and ability of monitoring increases with ownership concentration, control becomes more rigorous and effective however it comes at a cost of liquidity. According to Burkart et al (1997), excessive monitoring has the tendency to stifle managerial initiative. These may result in the firm missing out on profitable investment opportunities. There is an evidence empirically on the general positive effect of group affiliation on company performance for developing countries and inconclusive for developed countries (Weinstein and Yafeh, 1995). Shareholders concentration is very minimal in an Anglo-Saxon economies where companies rely heavily on the stock market to channel the flow of capital, of capital, control its effective use, and give assurance to outsiders of maximizing the return on their investment. These countries financial system have been criticized for its short-termism and neglect of shareholders interest.

Contrary to Anglo-Saxon economies, in other countries like Pakistan, ownership concentration is a very important feature of the German system. Tough things are recently improving lately, erman stock market is still relatively small with regards to listings and market capitalization. The tight relationship between industrial companies and financial institutions, apparently encourages access to debt capital easily, hence minimizing the demand to seek equity capital from the stock market. The network-like structure in a way help to effectively thwarted any serious effort of hostile takeovers in Germany. Lehmann and Weigand (2000) noted that, in past time of massive unemployment and poor economic growth, critics have argued that it was due to German network orientation as a primary cause for entrepreneurial inertia, risk aversion, and low investment in emerging new technologies and infant industries.

### **2.3 Characteristics of Board of Directors and Financial Performance**

Corporate governance reformers have argued that, independency of board directors could result to an effective monitoring. However there still exist an intense debate over the level contribution an independent board make to improve performance. Board of directors of an organization is expected to play a vital role in exercising good corporate governance. The board has the expectation of performing an effective monitoring of management, take action against poorly performed managers and determine incentive package of managers. It is also expected that, boards which non-executive managers out-numbered executive managers are more effective. However empirical investigation found no clear-cut evidence with regards to the impact of board independency on firm's performance. According to Krishana (2014) there is no evidence to attest to the relationship which exist between board independency and improvement in performance.

According to Yermack (1986) in study on effect of boards on firm's performance found that there exists a negative relationship between the size of a board and the performance of large firms. With regards to the finding, he concluded that, there exist a significant negative correlation between the proportion of board independency and contemporaneous Tobin's Q, but no significant correlation for other several other performance variables. In an AngloSaxon economies like United State and United Kingdom, a good corporate governance is equated to company pursuing the interest of owners. However, elsewhere like France and Japan, good corporate governance focuses on the interest of a wider section of stakeholder including worker, customers and owners (Shareholders).

## **2.4 Corporate Governance Issues in Developing Countries**

Corporate governance in emerging countries in recent times has received much attention due to its poor nature in such countries with resultant economic crises. According to Kearney (2012), emerging economies need a well-established physical financial infrastructure like central banks, commercial banks and stock market to operate efficiently. Unfortunately, developing economies lack most of these strong financial infrastructures. Relative to developed countries, emerging economies have inadequate processes like system of accounting, regulation and other financial systems that render the economy less efficient with less liquidity. A good corporate governance will reduce the level of uncertainty and risk, give a good impression to the international community which results in diversification of investment from countries across the globe.

Most challenges confronting developing economies consist of bad legislation, political instability, uncertainty, high risk, poor system to protect investors, and high government level of intervention that make it necessary for implementing an effective corporate governance. To attain a good corporate governance fundamentals, Reed (2002) suggested the improvement of transparency in the capital market in order to increase confidence of investors, improve upon domestic organizations performance and enhance growth through use of equity rather than debt. Singh and Zammit (2006) indicated that, identifying additional sources of challenges confronting developing economies like crony capitalism which means a nation which thrives on close relationship between business people and government officials resulting in discrimination in the distribution of government grants, tax holidays, legal permits and other types of interventions from the state. Crony capitalism normally leads

to bad corporate governance. Nenova (2003) outlined four major component of challenges confronting developing nations in connection with corporate governance. These consist of ineffective disclosure practices, weak legal framework, value transfer to dominate large shareholders and audit problem.

Several researchers and practitioners noted that, the maximum form of governance is unique to individual firms. In view of that, the prevailing situation within which an organization functions mostly dictates the best structure of governance even in the case of firms that operate in the same market (Dallas and Ararat, 2011). According to Marashdeh (2014), many aspects of developing economies can be instrumental in controlling the choice made with regards to governance of an organization like financial market development, ownership structure and the level of public governance.

According to Claessens and Yurtoglu (2013), ownership concentration seems to be relatively high in developing countries where shareholders right is weak due to inadequate regulations provided laws. These is asserted by Shleifer and Vishny (2000) that, ownership of organizations in developing nations are concentrated among few major shareholders leading to agency problem due to a misalignment of interests between managers and owners. They contended that, in developing nations there is a concentration of ownership structure, large and control by owners (shareholder) can immensely minimize agency problems due to the fact that, there exist incentive and ability to oversee the activities of managers to the benefit of every stakeholder. Nevertheless Johnson, Boone, Breach and Friedman (2000) indicated that, performance of companies could be negatively affected if excessive controlling owners (shareholders) collude with managers to expropriate the organization's resources and work for self-interest at the expense of the company.

Literature and findings from the study area undertaken in developing countries is inconclusive since these study outcomes have been mixed with the data dwelling on the relationship between firms' performance and the mechanism of effective corporate governance. According to Marashdeh (2014), structure of governance in one economy could offer the maximum protection for investors, however that same structure delivers less than desirable in another economy. Therefore, this study will provide enough information on managerial ownership and its relationship with corporate performance.

## **2.5 Corporate Governance Measures in Ghana**

Regarding the significance and vitality of the institution of efficient corporate, government of Ghana through her agencies have institute necessary arrangement to safeguard the hard-earned investment of investors from self-interest managers of listed companies in Ghana.

The instituted arrangements are stated in the “code of Best Practices on Corporate Governance” implemented in the year 2010 which discussed as followed. The arrangement instituted discussed, the roles of board and management, the Shareholders (Owners) rights and the role of Audit Committee.

### **2.5.1 The roles of the board of directors.**

Competency and the integrity of board members of a corporate organizations is very key in implementing a good and effective corporate governance. Therefore, to accomplish this task, they need to fulfill certain role including: strategic guidance of corporate entity bearing in mind the organizational objectives, see to the management of the entity, and identifying the risk and implementation of systems that can managed such risks. Also, the board must outline

succession plan and appoint, train, remunerate and replace senior management, see to the internal control system and finally maintaining corporate body's communications.

### **2.5.2 The CEO and management**

The managers and chief executive of a corporate entity are responsible for the day to day operation of business. Specifically, their responsibilities includes: the operation of the organization effectively and ethically, preparation of strategic plans and annual operating plans and budget for board to approve, they must make sure financial reports which give the representation of financial health of the firm, has complied with relevant statutory and profession pronouncements and finally they must establish an efficient system of internal controls to give an assurance of firm providing accurate book keeping and safeguarding its asset.

### **2.5.3 The role of the audit committee**

Ghana's company Code, 1963 (Act 179) stated that, audit committee must consist of at least three (3) directors who should be a non-executive member. The members of the audit committee must ideally consist of directors who have enough knowledge in finance, accounting and fundamental elements of laws under which corporate entities operate. Specifically, the responsibilities of the audit committee includes: appointing external auditors of the corporate organization, maintain and ensure quality and effective audit in collaboration with external and internal auditors, they review the appropriateness of internal control system and level of compliance with relevant policies, laws and code of ethics of the corporate organization, provide required channel of communication directly among the

board the, internal auditors, external auditors, accountants and compliance officers of the corporate organization, provide needed information to the board on issue regard significant financial transaction, and finally to support the board in formulating policies which will enhanced control and operating system of the corporate entity.

## **2.6 Corporate Governance Mechanisms**

There exist numerous studies which have indicated several factors or variables which constitute the measuring rod by which corporate governance can be comprehended in a company. Some of these factors or mechanism includes but not limited to: size of the board, composition of boards, audit committee and CEO Duality.

### **2.6.1 Size of board of directors**

The role of the board cannot not be overemphasized in implementing an effective and good corporate governance measures. Board members consist of people who usually have in-depth knowledge in a specific industry and monitor the activities of management, take corrective action, reshuffle non-performing manager and determine what manager take home as a compensation or incentive. Reduction of number of board members to a specific level is mostly believed to result into performance improvement. This is because, the benefit of larger boards means increased level of monitoring which is outweigh by poorer level of communication and decision making by a larger group.

The outcome from several studies with regards to board size seems to be at par with the aforementioned conclusion. There is fairly a negative relationship between performance and

the size of a board. This means that should there be a large board, there is much possibility that it will result into poor performance because of less effectiveness of discussing substantive issues among directors. According to Mak and Yuanto (2003), firm's valuation is highest when boards of directors are numbered five (5), which is considered relatively small. Furthermore, according to Sanda, Mikailu and Garba (2005), firm's performance is positively correlated with small as opposed to large boards. With consideration to this findings, Lipton and Lorsch (1992) opposed that there exist negative relationship between size of board and firms performance. He argued that, it is difficult for the CEO to control the firm because if the board size becomes big, coordination problem emerges.

### **2.6.2 Board composition**

According to Young (2003), director's independency from the firm is intuitively appealing because directors will find it easier to turn down any excessive pay packet, contends the motive behind a proposed merger and bring to bear skepticism necessary for effective monitoring. It was also noted by Tornyeva and Wereko (2012) that, the proportion of directors will to a large extent affect the quality of decisions taken since objectivity must be the focal point and the ability to monitor management. John and Senbert (1998) noted that a board is observed to be independent when executive directors are less than non-executive directors due to the familiarity of executive director with the firm's activities and may not be in better position to supervised and monitor top level management especially if they perceive the opportunity to be promoted to positions occupied by incompetent executives.

Likewise, Fama (1980) noted that, non-executive directors can perform as a referee to ensure that competition between executive directors stimulate action in line with owners' motive of value maximization.

According to Rosenstein and Wyatt (1990), the financial market mostly responds to the announcement regarding appointment of non-executive directors positively through showing an appreciable level performance improvement of corporate share. Whilst Bhagat and Black (2002) were not actually able to establish any significant relationship between non-executive directors and the performance of corporation. They indicated that firms which perform poorly were highly probable to increase the independence of their board. Also, Klein (1998) noted that, corporation performance was insignificantly related to a large extent the people outside the board. Therefore, the relationship between non-executive directors and performance of organization is a mixed one.

Although the significance of the Agency Theory show that corporate governance must result to increase in stock prices or better performance in the long run, due to better supervision of managers which leads to cost minimization. It was discovered by Gompers, Ishii, and Metrick (2003) that, the agency theory has not very little to explain the positive relation between corporate governance and performance of firms. Likewise finding of research done by Pinteris (2002) indicated that, there exist no relationship between board composition and firm performance in terms value addition.

### **2.6.3 CEO duality**

There are several report which investigate the separation of CEO and chairman of boards and it was revealed that agency problems are higher if the same person occupies the two

positions. According to Tornyeva and Wereko (2012) noted that, positions such as CEO and chairmen of boards are the two most powerful position in any corporate institution, therefore the concentration of hands of single person could result into decisions that would not necessarily be in the interest of owners (shareholders). Yermack (1996) in a landmark research using 452 organizations from 1984 to 1991, revealed that organizations are more valuable and put up outstanding performance if CEO and the board chairmanship position are handled by different individuals. Laing and Li (1999) however view things in a different dimension. In their study, they found no positive relationship between separation of CEO and board chairman position with performance of a corporation.

## **2.7. Concept of Firm Performance**

Raji (2012) noted that findings of many researches indicated that the objective functions and the cost of monitoring management varied significantly for different types of owners. What this implied is that, it is not vital to be aware of the level equity a shareholder contributes, but knowing who the shareholder is ascertaining this is worthwhile due to the difference in investors with regards to wealth, risk aversion and the priority attach to owners' value in comparison to other goals. Thomsen and Pederson (1997) noted that, at time the existence of conflict occurs among shareholders because of their economic status with the corporation. For instance, in a country where government and a bank perform dual role, such government can perform that role of shareholders and a regulator whilst a bank also performs the role of a lender and owner. They further noted that, the preferences of various stakeholders with regards organizational strategy involve a tradeoff between the motive of shareholders value and other goals.

According to Baah (2011), managerial ownership of a firm is observed as the most controversial among all the patterns of ownership because of ambivalent effect the performance of firms. He further noted that, it view as a tool for alignment of the interest of the manger with other shareholders. However, Raji (2012) revealed that, the dominance of managerial ownership gives management a monetary motivation for the pursuit of profit maximization. Likewise, the dominance of managerial ownership increases the entrenchment effect in managers which could be costly should they possess low qualification.

Park and Shin however noted that, there is no significant relationship between managerial ownership and the organizational performance. These mixed outcome from the researches in the area of managerial ownership and performance could possibly be as a result of inadequate and restrictive nature of data. Despite the inconsistencies, literature had it that, there no debate that a good corporate governance in very instrumental in promoting corporate performance.

## **2.8 Related Theories**

### **2.8.1 Agency Theory**

This theory is very vital with regards to explaining the roles of board directors on the performance of the firms. According to Zahra and Pearce (1989) the agency theory is among the most in researches done on the contribution of board members. Muth and Donaldson (1998) argued that as the firm expand, shareholders become unable to control the firm

effectively therefore hire the service of a professional managers who have specialized knowhow with organizational operation to take over the control. According to Davis et al (1997), agency theory can be defined as the conflicting interest existing between the owners (shareholders) and the management of the corporation. Scholars noted that, the conflict occurs where the managers seek their self-interest at the expense of owners (shareholders) whose intention is adding value to the corporation for long term interest. Furthermore, Muth and Donaldson (1998) indicated that, as a result of separation of ownership from management of corporation, managers have the liberty and power to pursue their self-centered agenda.

In view of the problems of conflicting interest and mistrust of managers as indicated by the agency theory, the concept of board emerged to control the activities of the manager. According to Zahra and Pearch (1989), the boards contribution in to improve performance could be reduction of agency cost which result from noncompliance of managers with laid down rule and regulation by articulating owner's objectives and focusing the attention of managers on company's performance.

Corporate governance has been defined severally from diverse view point by various authors and professionals including those in academia, professional bodies and regulators. Vo and Nguyen (2014) noted that, the main concerns of corporate governance are related to "the structures and processes for the business directions and management of company". According to Marashdeh (2014), as a result of an increasing interest of organizations with regard to corporate fraud and fraudulent financial reporting the notion of corporate governance has become common in both developed and developing economies.

Zahra and Pearch (1989) outlined four (4) important attribute of board which consist of composition, characteristics structure and decision-making processes. Researchers indicated that agency theory gives decision making process toward performance of board abrupt attention and the monitoring role of the board which aimed at reducing agency costs, but at the same time places a minimal role on the board in strategic contribution. Muth and Donaldson (1998) noted that, board of directors must be independent from management of the corporation with the aim maximizing performance. Some scholars have argued that the independency of boards could have a positive effect on corporation performance. In other words, company would experience a weaken performance should the independency of the board is compromised. According to Fama and Jensen (1983) as cited Muth and Donaldson (1998), they asserted that it is important to separate the initiation and implementation of decision from the ratification and monitoring of decisions.

This theory has been selected for review as it relates to issues surrounding corporate governance and performance. The theory is about how management is separate from the ownership and the tendency of managing serving their interest at the expenses of the owners. The action and the inaction of the management in directly related to corporate governance as well as the performance of the organization. The second objective of this study is to find out separation of the CEO (Management) from the board chair has effect on financial performance of an organization.

### **2.8.2. Stewardship Theory**

This theory gives a contracting view about the how to structure effective boards. The stewardship theory illuminates the role of managers as a steward rather than solely

selfinterested motive economic man of agency theory. Therefore a the main difference agency theory and stewardship theory is that, whilst agency theory is rooted in capitalist ideology and self-interest motive, stewardship theory reorganization a range of non-financial motives of managerial behavior. According to Donaldson and Davis, 1991 as cited in Muth and Donaldson (1998), stewardship theory observes managers are viewed to be much interest in attaining organizational goal of good performance and making use of power available to act in the interest of owners (Shareholders). Therefore, there are several varied reasons beyond self-centeredness that could explain why contrary objectives do not occur in separating ownership from control. Zachra and Pearc (1989) hence noted that, the blanket controls could not necessarily be a solution to aid in improving firm's performance or acting in the interest of shareholders (owners). They further indicated that, in reality there exist a mix of individual interest and organizations interest which aim at maximizing performance. Hence the suppose trade-off of organizational performance for self-interest does not exist as a result of the mutual benefits managers and owners (shareholders).

Some researchers have also given a considerable difference between agency theory and stewardship theory. They noted that, whilst agency theory makes use of market value to measure extrinsic satisfaction, stewardship theory in much concern with intrinsic satisfaction like achievement and reputation. According to Zahra and Pearce (1989), it has been established that the interest of the manger can be met should they act in the interest of shareholders to attain high level of performance. Furthermore, stewardship theory is more concern of characteristics of board's composition, which impacts organization performance highly relative to monitoring and control approach. Muth and Donaldson (1998) indicated that if the board basically consist of insiders, it would be preferable because their professional

expertise, in-depth knowledge and technical knowhow cannot be overemphasized. However, owners of the corporation could obtain maximum profit should monitoring and control be conducted efficiently.

This theory also keenly relatedly to issues of corporate governance and agency theory. Stewardship theory look into the structure and composition of boards to improve good corporate governance. Hence it has become necessary to be review to provide an insight into the subject under study. The first objective of the study is to examine the relationship between the size of board and financial performance.

## **2.9 Empirical Review**

Adekunle, S. A., & Aghedo, E. M (2014) in their paper sought to study the relationsh between board size and organization's financial performance and also to ascertain if the separation of CEO and the board chair leads to the enhancement in performance financially. It was found out from the result that, there exist a positively significant relationship between the composition of board member and the board size as independent variable and organization performance. It also noted that, CEO's status has an insignificantly positive relationship with the organizational performance.

Thomsen and Pederson (2002) undertook an intensive study in finding out the relationship between corporate governance and the performance of listed firms in European country by use of Tobin's Q as a criteria to measure economic performance. The outcome of the research indicated that, there exist a significant positive relationship between corporate governance with ownership concentration and performance economically. Though the relationship is

non-linear and ownership concentration for the given level was a U-shaped curved and has negative effect on firm's performance. They therefore concluded that, unlike ownership concentration, if ownership is distributed, other shareholder cannot participate in corporate policy and this can weaken corporate governance mechanism that could affect optimal performance.

Also, Demsetz and Villanonga (2001) in their research investigated the relationship between corporate governance with regards ownership structure and firm's performance. They made use of 223 listed firms and which hypothesized that ownership is view as multidimensional and as an endogenous variable. They have not established significant relationship between ownership structure and performance of firms. This outcome confirmed the findings of previous researches which indicated that unfocused ownership has the tendency to increase agency challenges despite having other advantage that could be instrumental in several economic problem resolution.

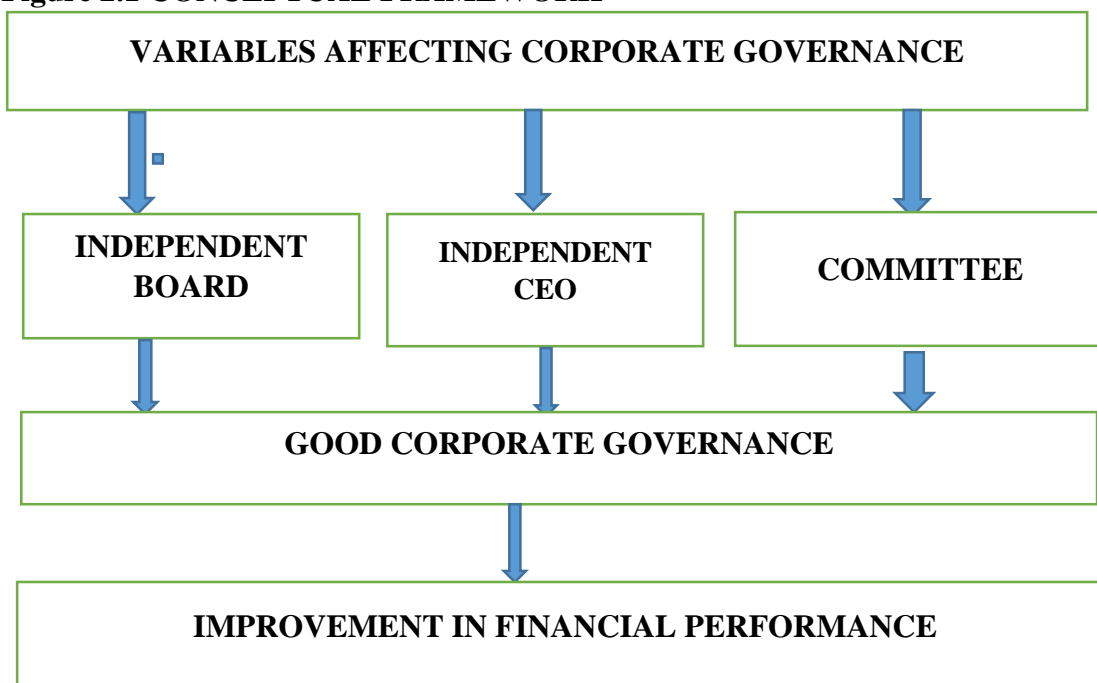
Brown and Caylor (2004) in a study they titled, corporate government and corporate performance. Tobin's Q was employed as a criteria to measure performance for 2,327 corporations. They employed 51 factors that affect corporate governance and categorizing them in 8 groups including: accounting, the board of directors, legislating, teaching directors, director's remuneration, shareholders, operation development, and the tendency for partnership. It was found that a proper corporate governance influences firm's yield in connection with director's remuneration. Nonetheless, another facet has also influence directly the performance of a firm. The outcome of the study also indicated that, the corporate governance weakest executive facet is the existence of a specific policy for replacement of

auditors, due to over ninety-eight percent of firms have reward committees rather than audit committee.

## 2.10. Conceptual Framework

The figure 2.1 illustrate some of the practices that have the tendency to improve the level of corporate governance in an organization. One of such practice is that the board of the organization should consist of independent directors. The level of ownership dominance should be minimized. And also, CEOs of an organization should be restricted from being head of the board. The board size should be based on the size of the organization. It is believed that, an improvement in corporate governance will result into enhancement in financial performance of the organization.

**Figure 2.1 CONCEPTUAL FRAMEWORK**



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

The research methodology details out the various methods and techniques that will be used in the gathering and analysis of data. Methods to be discussed include the research design, research population, sampling size and sampling technique, source of data, technique for data analysis.

#### **3.2 Research Design**

Research design refers to the overall research strategy that is employed by the researcher in order to direct the overall flow of the research study. Creswell (2010) posited that in determining the research design for a study, the researcher ought to consider the research questions, in view of this, the study employed the descriptive design in order to explain financial performance based on indicators such as the corporate governance structure of the selected firms. More precisely, the study also espoused the predictive design because there was the need to use corporate governance structure as a predicate of financial performance. This research design was used to collect a snap shot of data and analysis of the relationships between study variables. The design was more appropriate as it enabled respondents to give their relevant information on the issue of interest to the study, (Cooper & Schindler, 2003). Furthermore, the study also employed the quantitative research approach. The quantitative approach was also employed because the study mainly dwelt on financial information which are coded in quantitative figures such as profit reports and the like. Quantitative research

allows for a more objective approach to the study and is more easily understandable and easily generalizable to a larger population as compared to a qualitative study (Creswell, 2010).

### **3.3 Population**

In this study, the population comprise the total number of banks in Ghana. According to the Bank of Ghana (2018), there are a total of 34 registered fully-fledged banks in Ghana. These were considered as the population of the study.

### **3.4 Sample Selection**

Researchers have posited that despite the positive nature of using an entire population in a research study, due to several reasons which makes it almost impracticable, it becomes prudent to select a portion of the population that is accessible, this process of selecting a section out of an entire population of a study is termed sampling. Despite the 34 licensed banks in Ghana, some of them do not have their financial reports published on the Ghana stock exchange, hence makes it difficult to access them especially between the years 2010 to 2017. The researcher therefore employed the convenience sampling technique to select 9 banks for the study. These were banks whose data were readily available and had the structures that makes it easy for the study to test the various study variables. These are CAL Bank, Ecobank, Fidelity Bank, Guaranty Trust Bank, Prudential Bank, Standard Chartered Bank, Unibank Ghana Ltd, UT Bank and Zenith Bank Ghana Ltd.

### 3.5 Sources of Data

The study is going to use a mix of secondary and primary data to reply to the research questions. The data will likely be collected from the usage of financial statements of the organizations for the period 2014 to 2017. The study is going to use panel data framework which follows the one used by Biekpe and Abor, (2007). This calls for the pooling of observations on cross section of units more than all time periods and offers results which are just not detectable in genuine cross sections or maybe clean time series studies. An observation in panel data involves no less than 2 dimensions; a cross sectional dimension, indicated by subscript “t”. Attached to the variables in the model are double subscripts in order to differentiate them from regular time-series or cross section regression.

### 3.7 Specifications of Variables Used in Estimating Bank Liquidity and Solvency

To determine the liquidity determinants of the Banks, the CAMEL model used by regulators and which is line with the recommendations of Basel Committee on Bank Supervision of the Bank of International Settlement was used as a baseline model. This model is developed based on the empirical works on financial soundness, and health of Banks (Baral, 2016):

$$OP = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where;

OP= the Financial performance of Commercial Banks in Ghana

$\alpha$  = Constant Term (Total Assets)

$\beta_i$  = Beta Coefficient of variable  $i$  which measures whether there is responsiveness of

$Y$  to change in  $i$

$X_1$  = Board size

$X_2$  = Board diversity

$X_3$ = Committee Independence,  $X_4$ = CEO Duality

$e$ =Error term

### **Solvency**

Solvency Ratio = Total Firm Liabilities /Total Firm Assets

The net worth ratio is calculated as follows: Net Worth Ratio = Total Firm Equity/ Total Firm Assets  
The leverage ratio is calculated as follows: Leverage Ratio = Total Firm Liabilities or Debt / Total Firm Equity.

### **3.8 Data Analysis**

A scorecard approach was used to measure the CGP of the selected banks. This is a quantitative tool employed to measure the level of observance of corporate governance code and guidelines. These scores will be compared with the performance of the banks using Liquidity and solvency. Correlation and regression analysis will be used to discover the relationship that exist between bank performance and corporate governance practices.

### **3.9 Ethical Consideration**

With reference to ethical principles regarding the use of human participants for research purposes established by the American Psychological association (APA, 2002), the study thought it necessary to apply some ethical principles. The APA enshrined some ethical standards in order to serve as a guide for most of the situations psychologists face in conducting research. As indicated in the ethical code, researchers are supposed to make known to participants the purpose of the research,

how long it is going to take as well as their freedom to either participate or decline from the study. In other words, no form of coercion should be employed by psychologists in getting their participants to partake in the study. In accordance to the guideline stipulated above, the current study applied methods to ensure that these were duly followed. That is, participants concern was sought and the overall purpose of the research explained to them to help them make informed decisions about their participation. They were also made aware that their participation was voluntary and that any information provided by them is held confidential and would not be shown to any third party but rather would serve the purpose of the research study only. This ensured that the names of participants were not written and supervisors were not guaranteed that they would be made to know what their supervisors think of them. In conclusion, the phone number of the researcher was made available to participants to call should they have any enquiries to make about the study or concern for privacy of information.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION OF RESULTS**

#### **4.1 Introduction**

This chapter is dedicated to the presentations, discussions and data analysis in relation to the research objective. The analysis was based on data collected from the secondary source which is mainly from the financial statements of the banks under study. Thus, the main issues tackle in the analysis includes descriptive statistics, correlation and multiple regression analysis. These are various quantitative approach use in addressing the study objective which is an assessment on the effect of quality corporate governance on firm's financial performance in Ghana.

#### **4.2 Data Validity**

The sample used for these analysis include both foreign and local banks which are listed and for the matter getting reliable and valid data assured. These data were obtained from the Ghana Stock Exchange Website, where the financial statement of five selected banks were obtained from 2013 to 2017. Moreover, a 95 percent of interval was used as the caveat to guide the acceptance or rejection of a particular hypothesis.

#### **4.3 Diagnostic Test**

##### **4.3.1 Heteroskedasticity**

Batagi et al (2010) mentioned that the component of cross-sectional data with the standard error assumes homoskedastic variance of the disturbance and constant serial correlation based on the

random individual effects. The existence of heteroskedasticity in a model can make the estimates of the regression coefficients inefficient.

**Breusch-Pagan test** Ho = No heteroskedasticity reg e2 Boardsize

CEOduality Boarddiversity CommitteeIndependence

Number of obs = 25  
 F(4, 20) = 2.18  
 Prob > F = 0.1081  
 R-squared = 0.3038  
 Adj R-squared = 0.1645  
 Root MSE = .00043

Since the joint significant (P Value = 0.1081) which is above 10 percent, we accept the null hypothesis that there is no heteroskedasticity.

#### 4.3.2 Multicollinearity

Multicollinearity occurs when there is a linear correlation between two or more independent variables. There is a clear violation of one of the Classical Linear Regression Model assumption of no linear correlation between two or more independent variable. The existence of

multicollinearity in a data renders the OLS result inefficient

**Table 4. 1 Variance Inflation Factor**

Variable	VIF	1/VIF
CEOduality	1.76	0.566834
Committeein	1.74	0.573221
Boardsize	1.18	0.847576
Boarddiversity	1.11	0.897873
Mean VIF	1.45	

**Authors own Computation**

### **4.3.3 Normality Test**

This test is necessary to ensure the data is not skewed toward a particular side. One basic assumption of OLS regression is normality of data.

#### **Jarque-Bera Test**

Jarque-Bera normality test: 1.459 Chi (2) .4822

Jarque-Bera test for Ho: normality:

We cannot reject the null hypothesis; hence the data is normal or normally distributed.

### **4.5 Descriptive Statistics**

It is very essential to present the summary of descriptive statistics in a study to provide understanding of the nature of variables under study. Descriptive statistics provides the measure of central tendencies which include; mean, standard deviation, minimum and maximum values. From the table 4.2 below, it can be observed that the overall financial status of the firms revealed a general average of 0.056 with a minimum of 0.003 and maximum of 0.0914 and standard deviation of 0.0259, with board size depicting mean of 9.2 maximum value of 16 and minimum value 2. Also, board diversity has an average of 0.425 with a minimum value of 0 and maximum value of 0.8181 and a standard deviation 0.274. The other independent variable which includes; CEO duality and Committee independence are dummy variables with minimum value of 0 and Maximum value of 1.

**Table 4. 2 Descriptive Statistics**

<b>Variable</b>	<b>Obs</b>	<b>Means</b>	<b>Std. Dev</b>	<b>Min</b>	<b>Max</b>
Boardsize	25	9.2	3.175	2	16
CEOduality	25	0.2	0.408	0	1
Boarddiversity	25	0.425	0.274	0	0.8181
Committeeindep	25	0.4	0.5	0	1
ROA	25	0.056	0.0259	0.003	0.0914

**Authors own Computation**

## **4.5 Correlation Analysis**

### **4.5.1 Correlation Analysis on Return on Asset and Other Variable**

The table 4.3 indicates correlation matrix of all the variables use in the analysis. Interestingly from the table it has been revealed that Return on Asset is negatively related to all the other variables used in the analysis: Board size (-0.4742), CEO Duality (-0.00212), Board Diversity (-0.263) and Committee Independence (-0.007). However out of all these relationships, it is only the correlation between Return on Asset and board size that is significant 5 percent significant level. What this result implied is that, the other relationship which show negative relationship are insignificant-indirectly not having any relationship with Return on Asset.

A negative correlation coefficient means there is a negative relationship between the variables under study. In this regards it implied that large board size in banks are affecting the performance of banks performance. This can also be as a result of quality of the board members. This result is contrary to finding from other jurisdiction where the board size positively related to the financial performance of banks. For instance, Dekunkle and Aghedo (2014) found in the context of Nigeria banks a positive and significant correlation coefficient between Return on Asset and board size.

From this result, it will be appropriate to assess the effectiveness and quality of board members, since number of board members does not reflect much in performance

**Table 4. 3 Correlation Matrix on ROA and other Variable**

	Boardsize	CEOduality	Boarddiversity	Committeeinde	ROA
Boardsize	1				
CEO duality	-0.3536*	1			
Boarddiversity	0.157	-0.0668	1		
Committeeindep	-0.2624	0.6124**	0.1715	1	
ROA	-0.4742**	-0.0212	-0.2463	-0.007	1

**Authors own Computation**

\*. Correlation is significant at the 0.01 level (2-tailed). \*

Correlation is significant at the 0.05 level (2-tailed).

**4.5.2 Correlation Analysis on Solvency Ratio and Other Variable**

Since the study objective is on both Solvency and Financial Performance, it becomes necessary to do run a correlation analysis on both Return on Asset and Solvency Ratio. From the table 4.4 below, it can be observed that, there exist negative and significant relationship between board size and solvency ratio. What it implies is that, just as the result on Return on Asset large board size reduces the solvency ratio of bank firms in Ghana. However, the absolute value of the coefficient (-0.2624) there exist a weak correlation between board size and solvency of banks. Put different, board size has negative but small correlation with solvency.

It has been indicated from table 4.4 that, there exist significantly positive correlation between

Committee independence and solvency of banks in Ghana. It implies the more independent the various committees are, the more the bank perform. However in terms of absolute value (0.0792), the correlation is a weak one though significant.

**Table 4. 4 Correlation Matrix on Solvency and other Variable**

	<u>BoardSize</u>	<u>CEOduality</u>	<u>Boarddiversity</u>	<u>Committeind</u>	<u>Solvency</u>
Boardsize	1				
CEOduality	-0.3536*	1			
Boarddiversity	0.157	-0.0668	1		
CommitteeInden	-0.2624	0.6124*	0.1715	1	
Solvency	-0.1228*	-0.215	0.1887	0.0792*	1

**Authors own Computation**

\*\* . Correlation is significant at the 0.01 level (2-tailed). \* . Correlation is significant at the 0.05 level (2-tailed).

## 4.6 Regression Analysis

### 4.6.1 Regression Analysis with Return of Asset as a Dependent Variable

Table 4.5 depicts the effect of Board diversity, CEO Duality, Committee Independency and Board Size on the financial performance of Commercial Banks in Ghana. Correlation analysis above, sought to establish the relationship between the variables. However, the regression analysis sought to estimate the effect these variable (independent Variable) have on dependent variable.

From the table 4.5, it can be observed that, board size obtained a negative coefficient of (-0.0424). With  $P > |t|$  of (0.0072) which show a significant level of less than 1 percent, it can be explain that a large board size is not favourable for the financial performance of Commercial Banks in Ghana.

The table 4.5 also show that the independency committee has a positive (0.0018) and significant ( $P>|t| = 0.03$ ) effect on the financial performance of Commercial Banks in Ghana. This result therefore suggests that, for Commercial Banks in Ghana to improve their financial performance, they must ensure the upmost independency of various committee within the bank.

Board diversity which is expected to obtain a positive coefficient does not meet the expectation.

Though board diversity obtained a negative coefficient (-0.0177), it is highly insignificant ( $P>|t| = 0.35$ ) making the outcome not reliable. Also, CEO duality obtained a negative (-0.0152) but insignificant ( $P>|t| = 0.34$ ).

**Table 4. 5 Regression Result with Return on Asset (ROA) Dependent Variable**

<b>ROA</b>	<b>Coef.</b>	<b>Std. Err</b>	<b>T</b>	<b>P&gt; t </b>
Boardsize	-0.0424	0.0166	-2.56	0.0072
CEOduality	-0.0152	0.0158	-0.96	0.343
Boarddiversity	-0.0177	0.0187	-0.93	0.354
Committeeinde	0.0018	0.0128	0.14	0.03
Cons	0.1049	0.0179	5.87	0.21

**Authors own Computation**

#### **4.6.2 Regression Analysis with Solvency Ratio a Dependent Variable**

This sub-section sought to estimate the effect of Board diversity, CEO Duality, Committee Independency and Board Size on the Solvency Ratio of Commercial Banks in Ghana. From table 4.6 below there exist negative (-0.303) and significant ( $P>|t| = 0.02$ ) effect of Board size on Solvency Ratio as a confirmation on the earlier result.

Moreover, Board diversity has positive (0.213) and significant ( $P>|t| = 0.04$ ) on the solvency ratio in Commercial Banks in Ghana as expected. It implies that, board membership should consist of

with non-executive and executive members. Likewise, table 4.5 also show that the independency committee has a positive (0.022) and significant ( $P>|t| = 0.00$ ) effect on the Solvency Ratio of Commercial Banks in Ghana. This result therefore suggests that, for Commercial Banks in Ghana to improve their financial performance, they must ensure the upmost independency of various committee within the bank

**Table 4. 6 Regression Result with Solvency Ratio a Dependent Variable**

<b>Solvency Ratio</b>	<b>Coef.</b>	<b>Std. Err</b>	<b>T</b>	<b>P&gt; t </b>
Boardsize	-0.303	0.2129	-1.03	0.02
CEOduality	-0.0453	0.0279	-1.63	0.23
Boarddiversity	0.213	0.3322	0.63	0.044
Committeeinde	0.0222	0.0341	0.97	0.000
Cons	0.8649	0.0316	0.02	0.21

**Authors own Computation**

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS A N D RECOMMENDATIONS

#### 5.1 Introduction

This chapter focuses the research summary, conclusion and recommendation base on the outcome of the study. The data for the analysis was basically from a secondary source that is from the financial statement of selected Commercial Banks in Ghana. The chapter as well identifies the limitations of the study in tandem with the entire research process. Finally, the study outlines the areas for further research.

#### 5.2 Summary

Good corporate governance policy formulation and practices has been of great concern to both developed and developing countries. It became even more essential after the collapse of some giant corporations in United State of America as well as the global financial crises. The relationship that exist between observing good corporate governance and the financial performance of a corporation has been one of the controversial issues. As a result, it has received much attention across the globe especially after the financial crises of Asia in 1997 (Nguyen and Nguyen, 2016).

This study therefore sought to examine the effect of corporate governance on the financial performance of Commercial Banks in Ghana. More specifically, the study concentrated on governance structures such as the Board Size, Board Diversity, Committee Independency, and CEO Duality as in connection with financial indicators such as liquidity and solvency.

A quantitative approach was thought to be appropriate for the study hence it was adopted. Secondary data obtained the financial statement of some selected Commercial Banks in Ghana under study. Descriptive statistics, tables, correlation analysis and regression analysis were employed for the data analysis to tackle the objectives of this study.

From the study found that large board size has a negative effect on the financial performance of Commercial banks in Ghana. It was as well reiterate that large board size is not favorable to Commercial Banks in Ghana as it has negative and significant effect on the solvency ratio. This result emphasizes on the need to pay attention to quality of members rather than the number. The increase number of board member at times just result into increase cost to take of their allowances.

Furthermore, it was indicated from the study that committee independency has a positively significant effect on the financial performance of Commercial Banks in Ghana. This same result was repeated in the case the solvency ratio, where Committee independency significantly affect the solvency ratio positively. It implies that, Commercial Banks in Ghana to ensure various committees operating within their firm are very independent.

Finally, it was noted Board Diversity has significantly positive effect on the Solvency Ratio of Commercial Bank in Ghana. However, in the case of financial performance which is measure by Return on Asset (ROA), there exist positive but insignificant effect of Board Diversity on Commercial Banks' financial performance in Ghana. It can therefore be said that for Commercial Banks in Ghana to improve, there is a need to diversify board membership with both executive and non-executive board members.

### **5.3 Conclusion**

This study concludes that the independent variables selected for this study influence to a large extent the financial performance of Commercial Banks in Ghana. It is therefore sufficient to conclude that these variables significantly influence financial performance movement given the unexplained variance is minimal. This confirms that overall the multiple regression model is statistically significant; in that it is a suitable prediction model for explaining how the selected independent variables affects the financial performance and solvency ratio of Commercial Banks in Ghana.

The study found that board diversity, committee independency and board size significantly affect financial performance of Commercial Bank in Ghana. With regards to board size as an independent variable and per the result, large board size is negatively affecting performance. And with regards to committee independency and board diversity they significantly affect Commercial Bank's financial performance positively.

### **5.4 Recommendations**

Based on the outcome of this study, the following recommendation are outline.

- I. The study results necessitate that it is prudent for Commercial Banks in Ghana not to place too much emphasis on the board size nor frequency of meetings but should rather place more quality in the nature of decisions they take when they go for their meetings. Large board does not necessarily result into improve performance but quality board members improve performance

- II. Stakeholders or shareholders of the respective Commercial Banks in Ghana should take into account the likely impact of a board composition on the overall performance of the firm. Put differently, there is the need to assess the nature of the board composition of the firm as this goes a long way to determine how the firm would be run and hence would influence their decision making due to the nature of decisions that would be made. The board membership should be diversified
- III. Finally, Commercial Banks in Ghana must ensure that various committee must be independent.

### **5.5 Limitation**

- I. The study employed only quantitative approach for the analysis the limitation is this is that in-depth views concerning the specific corporate governance structure would not be clearly spelt out and this will go a long way to reduce that understanding of the key corporate governance practices because these also are key in determining the quality of decisions made which in turn affects the performance of the organization
- II. Time very limited hence the study couldn't involve more banks and several years for the analysis. The have the tendency of reducing the robustness of result.

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