Corporate governance and financial performance of listed banks: evidence form emerging market

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Abstract: One of the important elements in this century’s business world that has received attention is corporate governance. The recent economic scandals and financial crisis have made it necessary to investigate the role of corporate governance on firm performance. The survival of firms has thus been associated with the existence and application of good corporate governance practices. This study examines the effect of corporate governance on financial performance of banks listed on the Ghana Stock Exchange. The study employs secondary data collected from 60 firm-year observations, consisting of seven listed banks from 2004 to 2012. The study employs pooled cross-sectional ordinary least squares regression analysis to predict the effect of the corporate governance variables on the financial performance of the listed banks. The findings from the study suggest a negative statistical significant association between board composition and the performance indicators, except for return on equity of the banks. CEO tenure is positively associated with the performance indicators of the banks. It is recommended that the listed banks should implement policies that would define the number of outside directors on their boards to enhance maximum benefits from the practice of good corporate governance.

Keywords: board of directors; Ghana; financial performance; listed banks; Ghana Stock Exchange; GSE.
1 Introduction

The financial environment has become more opened to new products and services as a result of globalisation and technology. However, the collapse of a large number of US firms and it being the era of mergers and acquisitions in the banking industry, pointed to the fact that there is the need for countries to have sound resilient banking systems with good corporate governance. The last decades has experienced growing awareness of corporate governance in both the advanced and developing economies. Good corporate governance leads to strengthening and upgrading an institution to survive in an increasingly open environment (Qi et al., 2000).

The subject of corporate governance leapt into the global business limelight from relative obscurity after a string of collapses of high profile financial institutions. Enron, the Houston, Texas based energy giant and World.com the telecom behemoth, shocked the business world with both the scale and age of their unethical and illegal operations.

While corporate practices in the US companies came under attack, it appeared that the problem was far more widespread. Large and trusted companies from Parmalat in Italy to the multinational newspaper group Bollinger Inc., Adephia Communications Company, Global Crossing Limited and Tyco International Limited, revealed significant and deep-rooted problems in their corporate governance (La Porta et al., 1999). Donaldson (2003) noted that weak corporate governance issues in most cases do not only lead to poor firm performance and risky financing patterns, but also culminate into macroeconomic crises.

Although, prior studies have noted that good corporate governance is imperative for increasing investor confidence and market liquidity (Monks and Minow, 1996), for continuous and sustainable growth of an organisation, there is no alternative to effective
corporate governance. It is, however, observed that firms which are well-governed and more democratic tend to enjoy higher valuations, achieve higher profits, higher growth in sales, lower capital expenditures and less bankruptcy risks. Firms in this category pay out more cash in the form of dividend to their shareholders unlike poorly governed firms (Pike and Neale, 2006).

Corporate governance in Ghana has been gaining recognition in response to initiatives by some stakeholders in collaboration with the Commonwealth Association of Corporate Governance, to address corporate governance in Ghana. A study, conducted and launched by the Institute of Directors-Ghana (IoD-Ghana) in 2001, indicated that acceptance of good corporate governance practices by businesses in the country is increasing.

In spite of the above developments, and laws which support corporate governance in Ghana, formal corporate governance structures and institutions are relatively underdeveloped in the country particularly among listed companies in Ghana. These laws include the Companies Code 1963 (Act 179), which provides for governance of all companies incorporated in Ghana; and the Securities Industry Law, 1993 (PNDCL 333) as amended by the Securities Industry (Amendment) Act 2000 (Act 590), which provides for governance of all stock exchanges, investment advisors, securities dealers, and collective investment schemes licensed by the Securities and Exchange Commission (SEC), among others.

The Companies Code attempts to streamline corporate practices in the country. The Code, for example, stipulates a minimum of two directors for a company with no ceiling on the maximum number. There is no requirement under the Companies Code for the appointment of independent directors as well as the balance of executive and non-executive directors. The Ghana Stock Exchange (GSE) listing regulations are also silent on board size. The interests of different stakeholders considered to be represented on a board are requirement under the Securities and Exchange Commission’s Code of Best Practices on Corporate Governance (SEC Code) for the GSE.

Only a few studies have been conducted so far on corporate governance and firm performance in Ghana (Abor, 2007; Kyereboah-Coleman, 2007; Kyereboah-Coleman and Biekpe, 2006; Abor and Biekpe, 2005). Little exists to determine the connection between corporate governance variables and the profitability of listed banks in Ghana. This study is a contribution to the ongoing debate on the examination of the relationship that exists between corporate governance mechanisms and performance of listed banks.

The banks and other financial institutions stand out to be the backbone of every economy. The world’s recent financial crisis negatively affects their asset portfolios, largely due to distorted credit management. To a large extent, this problem was the result of poor corporate governance in the banking industry. Schjoedt (2000) attributed this poor corporate governance to the relationships between the government, banks and big businesses as well as the organisational structure of businesses.

Since the Great Depression of the 1930s, financial institutions have had to confront major challenges such as the decline in economic activity, bank solvency, decline in consumer wealth, losses on the global stock markets, mergers, acquisitions and bailouts. However, minor problems in the banking sector unfolded into a widespread credit and liquidity crisis that emanated into a global economic meltdown implicating the unbreakable connection of individual economies both in the developed and developing world. Although, many studies have been done on the potential cause of the credit crunch, many of the causal factors are linked to failure in corporate governance
(Moxey and Berendt, 2008). As evidenced by Donaldson (2003), the question still remains (among other issues) whether corporate governance is the actual cause of financial crises in organisations. Therefore, this study will examine the effect of corporate governance on performance of Ghanaian banks listed on the GSE. Specifically, this study seeks to explore the relationship between internal corporate governance structures and firm financial performance of listed banks.

2 Literature review

There are three broad theories to explain the concept of corporate governance. These are: agency theory; stewardship theory; and stakeholder theory. Agency theory is concerned with the conflicting interests of principals and agents. The theory demonstrates the fundamental conflict of interest between managers and owners. Agency theory, which originated from the paper of Berle and Means (1932), dwells on the separation between ownership and control in large corporations. Jensen and Meckling (1976) is one of the most widely-cited papers on agency theory, suggesting that the firm can be viewed as a nexus or network of contracts, implicit and explicit, among various parties or stakeholders, such as shareholders, bondholders, employees, and society at large.

Agency problems arise when the interests of agents are not aligned with those of principals. Owners contract the managers to undertake the controlling tasks of a firm. In the quest to both seek to maximise their utility and self-interest, a conflict of interest arises. Managers having the effective control of the firm have the incentive to consume benefits at the expense of the owners. Jensen and Meckling (1976) define the costs caused by the divergence of interests between owners and managers as the agency cost consisting of the monitoring expenditures by the principal.

Depending on the parties involved in conflicts, agency problems can be categorised as: managerial agency or managerialism (between stockholders and management); debt agency (between stockholders and bondholders); social agency (between private and public sectors); and political agency (between agents of the public sector and the rest of society or taxpayers) (Luo, 2006).

According to Jensen and Meckling (1976), shareholders are the residual claimants after other parties, and thus shareholders’ rights are the weakest. The core of corporate governance is therefore mainly designing and putting in place disclosures, monitoring, oversight and corrective systems to protect and promote the interest of shareholders. The proponents of agency theory posit that corporate governance should lead to higher stock prices since effective management decreases agency costs. However, Gompers et al. (2003) showed that the evidence of a positive association between corporate governance and firm performance may have little to do with agency explanation.

Stewardship theory has been proposed as another pillar for corporate governance. The theory proposes that people are driven by different preferences and motivations and therefore any model of corporate governance must take this into account (Martynov, 2009). The humanistic assumptions of stewardship theory assume that managers are credible and trustworthy and attach significant value to their own personal reputations. It stresses that managers can be trusted to act in the interest of the organisation and will not try to expropriate wealth for themselves since their interests are already aligned with those of the principals. Thereby, the concept of opportunistic behaviour is not present within stewardship theory (Donaldson, 1990; Martynov, 2009;
Davis et al., 1997). The market for managers with strong personal reputations serves as the primary mechanism to control behaviour, with more reputable managers being offered higher compensation packages.

Figure 1 provides a visual representation of the network of contracts.

Figure 1  The firm (corporation): a network of contracts

The stakeholder model proposes that management must take into account multiple interests when making their decisions (Thomsen, 2008). Smith (2011) argues that the stakeholder model is a counter response to the agency model of shareholder primacy. Stakeholder theory argues that shareholders are generally disinterested in the management by agents of the firm and that shareholders should not be considered to be the only relevant form of capital. As such, directors are expected to act in the interest of the numerous capital providers. According to Jensen (2002), a firm implementing a stakeholder approach will be competitively handicapped as the need to balance numerous stakeholder interests allows for too much room for managerial discretion. Asher et al. (2005) provide a contrary view that the competitive disadvantage is derived from the dominant position of the shareholder model (agency logic), and not related to the managerial appropriation of perks. Jensen (2002) argues further that it is easy to maximise one dimension than more, and therefore the theory can, by definition, never work efficiently. Instead, value maximisation is the preferred goal for its positive influence on social welfare. The stakeholder theory has never been able to effectively influence society and provide an adequate framework for evaluating conflicting interests.
between stakeholders and managers of a firm over the usage, and accountability of company’s resources.

Corporate governance is a crucial issue for the management of banks, which can be viewed from two dimensions. One is the transparency in the corporate function, thus protecting the investors’ interest (reference to agency problem), while the other is concerned with having a sound risk management system in place (special reference to banks) (Jensen and Meckling, 1976). Crespi et al. (2002) claim that corporate governance of banks refers to the various methods by which bank owners attempt to induce managers to implement value-maximising policies. They observe that these methods may be external to the firm, such as the market or the level of competition in the product. They contend that there are also internal mechanisms such as a disciplinary intervention by shareholders as well as intervention from the board of directors.

Banks provide a vital contribution in building a solid infrastructure for the growth of any national economy. Banks act as financial intermediaries between investors or depositors who have capital, and those who seek capital (such as individuals who need loans or businesses wanting to grow). Banks, nowadays, are the backbone of national economies as they provide guarantees and assurance to execute huge investment for national enterprises, in addition to other basic financial services which banks offer to a broad segment of clients.

Some of the financial services include bank transfers, cheques and bills collection, and salaries payment. The importance of banks to national economies is underscored by the fact that banking is virtually a regulated universal industry and that banks have access to government safety policies. Any underperformance or instability of the banking sector may cause the private sector and financial system to dwindle and deteriorate which may result in other negative consequences on the national economy level. For this reason it is therefore significantly vital to have effective corporate governance in place at every banking institution.

The Basel Committee on Banking Supervision (1999) states that, from a banking industry perspective, corporate governance involves the manner in which the business and affairs of individual institutions are governed by their boards of directors and senior management.

Corporate governance examines how to achieve an increase in the effectiveness of certain firms with the help of organisational arrangements, contracts, regulations and legislation. It cannot be disputed that banks play a crucial role to any economy and it demands that they have strong and good corporate governance if they are to have a positive effect (Basel Committee on Banking Supervision, 2003).

Levrau and Van den Berghe (2007), in aligning the importance of banks in developing economies to corporate governance, observed that: first, banks have an overwhelmingly dominant position in the financial system of a developing economy and are extremely important engines of economic growth; second, as financial markets are usually underdeveloped, banks in developing economies are typically the most important source of finance for majority of firms; and third, as well as providing a generally accepted means of payment, banks in developing countries are usually the main depository for the economy’s savings.

The main role of bank managers is to serve shareholders’ interest, which is to maximise return on shareholders’ investment. Managers and owners of banks showing efforts and intention to implement good corporate governance will increase market credibility. Subsequently, they will collect funds at lower cost and lower risk. It can be
argued that better corporate governance will lead to higher performance. For example, Black et al. (2003) find a positive relationship between corporate performance and corporate governance. La Porta et al. (2002) find evidence that there is higher valuation of firms in countries with better protection of minority shareholders. In line with this study, Klapper and Love (2004) using data on 14 emerging stock markets, document that corporate governance provisions matter most in countries with weak legal environments. Their findings reveal that better corporate governance is highly correlated with better operating performance and higher market valuation.

3 Methodology

The panel data methodological approach is used. This involves the pooling of cross-sectional units of observations over several time dimensions (Baltagi, 2005). The panel data method is advantageous because the method increases the degrees of freedom, which is critical for a more robust estimate of parameters to examine the effects of corporate governance on financial performance of listed companies. The model used by Abor (2007), Kyereboah-Coleman and Biekpe (2006) and Akoto and Awunyo-Vitor (2014) has been adopted and adapted. Generally, this model is specified as:

\[ CG_{it} = \beta + X_{it}'\delta + \mu_{it} \]  

where

- \( CG_{it} \) is the profitability variables of firm \( i \) at time \( t \)
- \( \beta \) is the intercept
- \( \delta \) is the coefficient
- \( X_{it} \) is the independent variables of firm \( i \) at time \( t \)
- \( \mu \) is the error term.

Specifically, the relationship between corporate governance and the listed banks’ financial performance has been modelled below and estimated using the ordinary least square (OLS) regression technique.

\[ \text{ROCE}_{it} = \beta_0 + \delta_1 \text{BS}_{it} + \delta_2 \text{BCOM}_{it} + \delta_3 \text{CEO}_{it} + \delta_4 \text{SIZE}_{it} + \delta_5 \text{AGE}_{it} + \delta_6 \text{DEPOSIT}_{it} + \delta_7 \text{LIQUIDITY}_{it} + \delta_8 \text{LEVERAGE}_{it} + \mu_{it} \]  

\[ \text{NPM}_{it} = \beta_0 + \delta_1 \text{BS}_{it} + \delta_2 \text{BCOM}_{it} + \delta_3 \text{CEO}_{it} + \delta_4 \text{SIZE}_{it} + \delta_5 \text{AGE}_{it} + \delta_6 \text{DEPOSIT}_{it} + \delta_7 \text{LIQUIDITY}_{it} + \delta_8 \text{LEVERAGE}_{it} + \mu_{it} \]  

\[ \text{ROE}_{it} = \beta_0 + \delta_1 \text{BS}_{it} + \delta_2 \text{BCOM}_{it} + \delta_3 \text{CEO}_{it} + \delta_4 \text{SIZE}_{it} + \delta_5 \text{AGE}_{it} + \delta_6 \text{DEPOSIT}_{it} + \delta_7 \text{LIQUIDITY}_{it} + \delta_8 \text{LEVERAGE}_{it} + \mu_{it} \]  

\[ \text{DPS}_{it} = \beta_0 + \delta_1 \text{BS}_{it} + \delta_2 \text{BCOM}_{it} + \delta_3 \text{CEO}_{it} + \delta_4 \text{SIZE}_{it} + \delta_5 \text{AGE}_{it} + \delta_6 \text{DEPOSIT}_{it} + \delta_7 \text{LIQUIDITY}_{it} + \delta_8 \text{LEVERAGE}_{it} + \mu_{it} \]
where
ROCE  return on capital employed
NPM  net profit margin
ROE  return on equity
DPS  dividend per share
BS  board size
BCOM  board composition
CEOT  CEO tenure
SIZE  firm’s size
AGE  age of the firm
DEPOSIT  deposits of customers
LIQUIDITY  liquidity of the firm
LEVERAGE  leverage of the firm.

Table 1 presents the description of the variables used in the regression model and the expected signed of the coefficients.

<table>
<thead>
<tr>
<th>Governance variables</th>
<th>Description/measurement</th>
<th>Expected sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board size</td>
<td>This is the number of members serving on a firm’s board</td>
<td>+</td>
</tr>
<tr>
<td>Board composition</td>
<td>The board’s composition is the ratio of outside directors to the total number of directors (i.e. number of outside directors divided by total number of directors)</td>
<td>+</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>Number of years a CEO spends in office</td>
<td>+</td>
</tr>
<tr>
<td>Control variables</td>
<td>Description/measurement</td>
<td>-</td>
</tr>
<tr>
<td>Firm size</td>
<td>Total sales of the firm</td>
<td>+</td>
</tr>
<tr>
<td>Firm age</td>
<td>Number of years the firm has been incorporated.</td>
<td>+</td>
</tr>
<tr>
<td>Total deposits</td>
<td>Deposits of customers</td>
<td>+</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Liquidity funds divided by total assets</td>
<td>+</td>
</tr>
<tr>
<td>Leverage</td>
<td>Total assets divided by common equity</td>
<td>+</td>
</tr>
</tbody>
</table>

4 Results and discussion

4.1 Descriptive statistics

Table 2 reports the mean, standard deviation, minimum and maximum as well as the normality test of the variables for 60 firm year observations. On profitability, the table records means of 0.34, 0.67, 0.38 and 0.29 for ROCE, ROE, NPM and DPS with minimum (maximum) values of 0.03 (0.69), 0.30 (1.26), 0.08 (0.80) and 0.00 (3.05).
respectively. The table records mean and minimum (maximum) of 8.94 and 6.00 (12.00) for board size suggesting that, on average, the boards of the banks may have a board size of nine members. On board composition, the results indicate that the firms, on average, are likely to have 5.82 outside directors on the board with a minimum (maximum) of 2.00 (9.00) members. However, the table on CEO tenure records a mean of 4.87 with minimum and maximum values of 1.00 and 8.00, indicating that, on average, the banks have approximately five years of CEO tenure. On firm demographics, Table 2 reports means of 18.25 and 37.82 for firms size and age with minimum (maximum) values of 16.40 (19.78) and 0.00 (117.00) respectively. The results further show mean values of 7.51, 0.45 and 8.80 with minimum (maximum) values of 0.30 (20.13), 0.18 (0.75) and 5.19 (14.59) for deposit, liquidity and leverage.

**Table 2** Results of descriptive statistics and normality test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>S.D.</th>
<th>Min</th>
<th>Max</th>
<th>Pr (skewness)</th>
<th>Pr (kurtosis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROCE</td>
<td>0.34</td>
<td>0.16</td>
<td>0.03</td>
<td>0.69</td>
<td>0.1972</td>
<td>0.1808</td>
</tr>
<tr>
<td>ROE</td>
<td>0.67</td>
<td>0.24</td>
<td>0.30</td>
<td>1.26</td>
<td>0.0184</td>
<td>0.8084</td>
</tr>
<tr>
<td>NPM</td>
<td>0.38</td>
<td>0.14</td>
<td>0.08</td>
<td>0.80</td>
<td>0.0968</td>
<td>0.3135</td>
</tr>
<tr>
<td>DPS</td>
<td>0.29</td>
<td>0.62</td>
<td>0.00</td>
<td>3.05</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>BSIZE</td>
<td>8.94</td>
<td>1.67</td>
<td>6.00</td>
<td>12.00</td>
<td>0.7586</td>
<td>0.0334</td>
</tr>
<tr>
<td>BCOM</td>
<td>5.82</td>
<td>1.75</td>
<td>2.00</td>
<td>9.00</td>
<td>0.8807</td>
<td>0.6651</td>
</tr>
<tr>
<td>TENURE</td>
<td>4.87</td>
<td>2.30</td>
<td>1.00</td>
<td>8.00</td>
<td>0.9601</td>
<td>0.0000</td>
</tr>
<tr>
<td>SIZE</td>
<td>18.25</td>
<td>35.75</td>
<td>16.40</td>
<td>19.78</td>
<td>0.7763</td>
<td>0.8679</td>
</tr>
<tr>
<td>AGE</td>
<td>37.82</td>
<td>35.75</td>
<td>0.00</td>
<td>117.00</td>
<td>0.0004</td>
<td>0.4158</td>
</tr>
<tr>
<td>DEPOSIT</td>
<td>7.51</td>
<td>5.79</td>
<td>0.30</td>
<td>20.13</td>
<td>0.0884</td>
<td>0.0030</td>
</tr>
<tr>
<td>LIQUIDITY</td>
<td>0.45</td>
<td>0.14</td>
<td>0.18</td>
<td>0.75</td>
<td>0.8988</td>
<td>0.3439</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>8.80</td>
<td>2.51</td>
<td>5.19</td>
<td>14.59</td>
<td>0.1375</td>
<td>0.8943</td>
</tr>
</tbody>
</table>

The normality test using skewness-kurtosis in Table 2 largely depicts that the distribution is not a normal distribution. Precisely, the skewness tests do not reject the null hypothesis of normality for the variables dividend per share and age. For this reason, we used OLS regression analysis to test the hypotheses. On the contrary, the Kurtosis tests shows that the distribution is less than 3.0 hence reject the null hypothesis that all the variables are normally distributed at the 0.01 level.

### 4.2 Correlation regression

Table 3 displays the Pearson and Spearman correlation matrices employed in the study to test for the presence of multi-collinearity amongst the predictive variables. The results, however, suggest no collinearity in the dataset. The results show both negative and positive association between the variables. Although the table records high correlations of 0.738 and 0.754, it is below the level of tolerance of 0.8 for collinearity tests using correlation. The Pearson and Spearman correlation reports maximum correlation of 0.738 and 0.756 with minimum values of -0.001 and -0.006 respectively.
Table 3  Results of the Pearson and Spearman correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSIZE</td>
<td>0.754**</td>
<td>–0.297*</td>
<td>0.254*</td>
<td>0.477**</td>
<td>0.333**</td>
<td>0.099</td>
<td>0.096</td>
<td></td>
</tr>
<tr>
<td>BCOM</td>
<td>0.738**</td>
<td>–0.022</td>
<td>–0.044</td>
<td>0.262*</td>
<td>–0.006</td>
<td>–0.171</td>
<td>–0.151</td>
<td></td>
</tr>
<tr>
<td>TENURE</td>
<td>–0.289*</td>
<td>–0.007</td>
<td>–0.456**</td>
<td>–0.390**</td>
<td>–0.048</td>
<td>–0.046</td>
<td>0.319</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>0.318*</td>
<td>–0.003</td>
<td>–0.485**</td>
<td>0.489**</td>
<td>0.603**</td>
<td>0.442**</td>
<td>0.127</td>
<td></td>
</tr>
<tr>
<td>AGE</td>
<td>0.265*</td>
<td>–0.117</td>
<td>–0.463**</td>
<td>0.430**</td>
<td>0.407**</td>
<td>0.346*</td>
<td>–0.103</td>
<td></td>
</tr>
<tr>
<td>DEPOSIT</td>
<td>0.325*</td>
<td>0.014</td>
<td>–0.101</td>
<td>0.557**</td>
<td>0.422**</td>
<td>0.411**</td>
<td>0.477**</td>
<td></td>
</tr>
<tr>
<td>LIQUIDITY</td>
<td>0.112</td>
<td>–0.141</td>
<td>–0.029</td>
<td>0.425**</td>
<td>0.430**</td>
<td>0.378**</td>
<td>0.435</td>
<td></td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>0.007</td>
<td>–0.076</td>
<td>0.314</td>
<td>0.118</td>
<td>–0.001</td>
<td>0.529**</td>
<td>0.090</td>
<td></td>
</tr>
</tbody>
</table>

Notes: *p < 0.05 and **p < 0.01 level respectively. Pearson correlation is shown below and from the left of the diagonal; Spearman correlation is shown above and from the right of the diagonal.

4.3 Corporate governance and financial performance of listed banks

In Table 4, Model A reports the results of the OLS regression analysis. The results of model A show a negative but significant relationship between board composition and ROCE suggesting that a 1% increase in the number of outside directors on the board would lead to an average fall of 4.5% in the value of the return on capital employed. This may be attributed to the fact that, as the size of outside directors’ increases in relation to insiders, the cost of remuneration increases hence may deprive capital needed for investment to be used in defraying wage bills and is not concurrent with shareholder interests; thus confirming the argument by Gani and Jermias (2006) and Kyereboah-Coleman and Biekpe (2006).

Model A also reports a positive significant relationship between firm age ($\beta = 0.002$, $p < 0.01$), deposit ($\beta = 0.015$, $p < 0.01$), liquidity ($\beta = 0.498$, $p < 0.01$) and ROCE suggesting that a 1% increase these variables enhances the return on capital employed by 0.2%, 1.5% and 49.8% respectively. These findings support the empirical findings Majumdar and Chhibber (1999), which revealed a positive association between deposit, liquidity and firm performance. Model A, consequently reports that, on average, the predictive variables can approximately explain 34.4% of the variation in the return on capital employed. The F-statistics also records significance at 1%.

Model B of Table 4 reports that a positive significant relationship between board composition and ROE, suggesting that a 1% increase in outside directors would increase ROE by 8.4%. Results also show a positive significance for firm size at 1%. This indicates that ROE increase with a corresponding increase in firm size which supports the finding of Conger and Lawler (2009). Hence efficient operations of the board can enhance the corporate governance practices of the firm. This may be due to the diversity of the board’s expertise which may enrich managerial decision processes and strictly limits the CEO’s domination. The model also reports positive significance for deposit ($\beta = 0.024$, $p < 0.01$), liquidity ($\beta = 0.671$, $p < 0.05$) and leverage ($\beta = 0.056$, $p < 0.05$). This suggests that a 1% increase in deposit, liquidity and leverage will increase ROE of the banks by 2.4%, 67.1% and 5.6% respectively. This finding supports empirical findings of Majumdar and Chhibber (1999), which reveal a positive association between deposit, liquidity and firm performance. According to the R-squared of the model, the
variation in the explanatory variables can approximately explain about 37.6% of the variation in the dependent variable with is return on equity. The F-statistics show significance at 1%.

Table 4  Results of the OLS regression

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>ROCE</th>
<th>ROE</th>
<th>Net profit margin</th>
<th>Dividend per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent variables/model</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
</tr>
<tr>
<td>Board size</td>
<td>0.017</td>
<td>–0.056</td>
<td>0.050**</td>
<td>0.111</td>
</tr>
<tr>
<td></td>
<td>(0.027)</td>
<td>(0.041)</td>
<td>(0.022)</td>
<td>(0.119)</td>
</tr>
<tr>
<td>Board composition</td>
<td>–0.045**</td>
<td>0.084**</td>
<td>–0.092***</td>
<td>–0.265***</td>
</tr>
<tr>
<td></td>
<td>(0.022)</td>
<td>(0.033)</td>
<td>(0.018)</td>
<td>(0.098)</td>
</tr>
<tr>
<td>Tenure</td>
<td>–0.006</td>
<td>–0.020</td>
<td>0.013</td>
<td>–0.091*</td>
</tr>
<tr>
<td></td>
<td>(0.011)</td>
<td>(0.017)</td>
<td>(0.009)</td>
<td>(0.048)</td>
</tr>
<tr>
<td>Size</td>
<td>0.051</td>
<td>0.149***</td>
<td>–0.011</td>
<td>–0.008</td>
</tr>
<tr>
<td></td>
<td>(0.034)</td>
<td>(0.052)</td>
<td>(0.028)</td>
<td>(0.151)</td>
</tr>
<tr>
<td>Age</td>
<td>0.002***</td>
<td>0.001</td>
<td>0.001**</td>
<td>0.013***</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Deposit</td>
<td>0.015***</td>
<td>0.024***</td>
<td>0.002</td>
<td>0.011</td>
</tr>
<tr>
<td></td>
<td>(0.004)</td>
<td>(0.007)</td>
<td>(0.003)</td>
<td>(0.019)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.498***</td>
<td>0.671**</td>
<td>0.189</td>
<td>1.945**</td>
</tr>
<tr>
<td></td>
<td>(0.149)</td>
<td>(0.297)</td>
<td>(0.140)</td>
<td>(0.719)</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.017</td>
<td>0.056**</td>
<td>–0.006**</td>
<td>0.013</td>
</tr>
<tr>
<td></td>
<td>(0.013)</td>
<td>(0.023)</td>
<td>(0.010)</td>
<td>(0.048)</td>
</tr>
<tr>
<td>Constant</td>
<td>–0.472</td>
<td>–2.013**</td>
<td>0.637</td>
<td>1.533</td>
</tr>
<tr>
<td></td>
<td>(0.606)</td>
<td>(0.917)</td>
<td>(0.493)</td>
<td>(2.682)</td>
</tr>
<tr>
<td>F-statistics (prob &gt; F)</td>
<td>4.32</td>
<td>10.24</td>
<td>5.14</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.006)</td>
<td>(0.003)</td>
<td>(0.000)</td>
<td>(0.003)</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.344</td>
<td>0.376</td>
<td>0.554</td>
<td>0.384</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.264</td>
<td>0.300</td>
<td>0.500</td>
<td>0.309</td>
</tr>
</tbody>
</table>

Notes: *p < 0.1, **p < 0.05 and ***p < 0.01 level respectively.
Standard errors in parenthesis.

Model C of Table 4 records a positive significant association between board size and net profit margin of the banks at 5% level. This suggests that a 1% increase in the number of board of directors is likely to increase net profit margin by 5.0%. This finding confirms the results of Gani and Jermias (2006) and Kyereboah-Coleman and Biekpe (2006) suggesting that cost of maintaining outside directors may influence the level of investment and consequently the profit level of the firm.

The results also show a positive significant relationship between age and net profit margin, suggesting that the older the firm, the higher likelihood of the firm increasing its net profit margin as a result of experience the firm might have gathered over the years. However, the model reveals a negative significant association between leverage and net profit margin at 5% level indicating that as leverage increase, net profit margin of the banks are likely to fall by 0.6%. The model also displays that, on average, 55.4% of the variation in the net profit margin can be explained by the variation in the independent
variables presented in the model. The F-statistics further reports that the model is significance at 1%.

In Table 4, Model D records a negative significant association between board composition and dividend per share suggesting that as the number of outside directors’ increases, dividend per share decreases by 20.54%. This finding confirms the results of Gani and Jermias (2006) and Kyereboah-Coleman and Biekpe (2006) suggesting that, as the size of outside directors’ increases in relation to insiders, the cost of remuneration may increase and derive the banks’ investment capital, and consequently it’s income. The results exhibit a positive significance for age ($\beta = 0.013$, $p < 0.01$) and liquidity ($\beta = 1.945$, $p < 0.05$) suggesting that old firms and firms with more liquidity reserves, on average, are more likely to increase the payment of dividend per share to their shareholder. This result supports empirical findings of Majumdar and Chhibber (1999) that found a positive association between liquidity and firm performance in terms of dividend share. The model shows that about 38.4% of the variation in dependent variable can be explained by the variation in the predictive variables employed in the study. The F-statistics show significance at 1%.

5 Conclusions and recommendation

The importance of corporate governance cannot be over-emphasised since it brings new organisational climate that enhances a firm’s corporate competitiveness. This study examined the effect of corporate governance on the performance of listed banks. The findings show a statistically significant positive relationship between board size and the tenure of the board members of the firms. Also board composition is significant, but negatively related to profitability indicators. This signals that large numbers of outside directors decreases the efficiency of the board to work in the interest of shareholders. CEO tenure is significant, but negatively related to dividend per share, suggesting that long serving CEOs may prefer to retain earnings. In this vein, it is recommended that firms should have policies that define the number of years that a CEO can serve a firm as a way of preventing the agent from indulging in any opportunistic activities to the detriment of the shareholders. Similarly, for shareholders and management in their quest to increase firm performance, it is recommended that they resize the number of outside directors in relation to the inside directors in order to minimise cost hence effective monitoring of management towards shareholder interest.

The study has brought to light some interesting findings in the subject area which calls for further research in the Ghanaian firms to fully appreciate the influence of corporate governance on the performance of firms operating within the spheres of the country. It is recommended that future research extend the investigation to listed non-banking firms. Moreover, future work that will replicate the study using more governance variables such as board activity intensity, CEO duality, block-holdings, board committee and its characteristics, from listed and unlisted banking and non-banking firms will shed more light on issues raised in this work as well as certain hitherto undiscovered important findings to fully appreciate the efficacy of corporate governance mechanisms as a means of increasing firm performance. In addition, the findings are based on a small sample hence, they may not be generalisable. Further studies capturing both listed and unlisted firms on the basis of a larger sample will be helpful in terms of international comparability.
In addition to the above, stakeholders of banking institutions should focus on proper governance practices and principles by providing governance manuals to boost and enhance performance and to gain a better public image.

References


