KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

KNUST SCHOOL OF BUSINESS (KSB)

DEPARTMENT OF ACCOUNTING AND FINANCE

BOARD CHARACTERISTICS, ASSET QUALITY, AND FIRM PROFITABILITY: EVIDENCE FROM THE GHANAIAN BANKING SECTOR

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(BBA. Accounting)

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By

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DECLARATION

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted or the award of any other degree or diploma at Kwame Nkrumah University of Science and Technology, Kumasi or any other educational institution, except where due acknowledgment is made.

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DEDICATION

This piece of work is dedicated to my wife, Mrs. Eunice Baafi-Gyimah, and my sons, Nana Owusu Baafi-Gyimah and Emmanuel Ohene-Gyimah for their encouragement, unending love, and support.

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ABSTRACT

Following the collapse of giant institutions such as Enron and WorldCom, the concept of corporate governance began to exasperate the interest of scholars, academicians, and major stakeholders who have invested their hard-earned money in companies. Likewise, in the Ghanaian context, the collapse of many banks as well as the revocation of the license of many financial institutions are attributed to the issues of corporate governance. For this reason, the current study analysed board characteristics, asset quality, and profitability of banks in Ghana. Data was collected from the annual reports of 11 banks spanning from 2015 to 2020. From the results, the study found a significant positive relationship between asset quality and board size, board independence and board meetings among banks in Ghana. Furthermore, it was found that there is a strong positive relationship between asset quality and the profitability of banks in Ghana. Based on these findings, the study recommended banks should consider expanding their board of directors to include a diverse range of individuals with expertise in different areas of finance and asset management, which can contribute to better decision-making and ultimately enhance asset quality. Moreover, it was recommended that banks should establish robust monitoring mechanisms to evaluate and assess asset quality continuously. This will enable the board to identify any potential issues or areas for improvement and take appropriate actions in a timely manner. Finally, it is crucial for banks to prioritize maintaining a strong and healthy asset portfolio by effectively managing credit risk, minimizing non-performing assets, and ensuring regular audits and evaluations of asset quality.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The concept of corporate governance received much attention from scholars and stakeholders across the globe due to many corporate failures and a series of corporate scandals that were witnessed by giant institutions like Enron and WorldCom (Petra and Spieler, 2020). Besides, the recent financial crises that impacted major economies called for many studies on the concept of corporate governance(Awuah Nyarko et al., 2017) Empirical evidence has established that corporate failures and corporate scandals witnessed across the globe is as a result of poor corporate governance mechanisms in place. Following the Cadbury Report in 1992, various stakeholders across many countries have put in place measures aimed to make the conduct, success, and the going concern concept of operating companies a reality(Dahya et al., 2007).

Board structure, asset quality, and firm performance have certain peculiar characteristics and are said to be interrelated (Khaireddine et al., 2020). The board structure of a financial institution has been described by researchers as a vital component that impacts asset quality and also enhances the performance of firms across the globe(Adeiza Abdulazeez et al., 2019). The assets quality of Banks can be managed effectively when the Board of Directors puts in place prudent and effective assets quality policies. The empirical literature has confirmed that effective board structure impacts the asset quality of financial institutions which in turn enhances their performance in the long run (Gafoor et al., 2018). In this study, the researcher argued that when the board puts in place prudent monitoring and recovery of credit policies, it will ensure good asset quality of Banks, which will in turn enhance their performance.

Due to the increased importance of efficient financial systems across nations, board characteristics, asset quality, and firm performance relationships have been examined in many studies to assess their connection(Bezawada & Adaelli, 2020). Studies related to board characteristics and asset quality have revealed diverse findings as some scholars have recorded a positive impact (Abdulazeez et al., 2020; Gafoor et al., 2018) and few studies have reported no significant impact(Gupta and Sharma, 2022). In addition, studies on the relationship between asset quality and firm performance have mostly come out with two outcomes: positive impact(Adeolu, 2014; Mostak Ahamed, 2017) and no significant impact (Ray & Mahapatra, 2019). However, due to different geographical locations and microeconomic indicators, findings from their study cannot be generalized to the Ghanaian economy. Therefore, Ghana as an emerging African economy has been selected for this study. As revealed by Ahamed (2017), when the Board of Directors puts in place strategies to enhance the asset quality of their organization, it has a positive impact on the performance of Banks. Centrally, the purpose of this study is to analyze board characteristics, asset quality, and performance from the perspective of the banking sector in Ghana.

1.2 PROBLEM STATEMENT

Following the collapse of giant institutions such as Enron and WorldCom, the concept of corporate governance began to exasperate the interest of scholars, academicians, and major stakeholders who have invested their hard-earned money in companies (Bhagat and Bolton, 2019; Petra and Spieler, 2020). Likewise, in the Ghanaian context, the collapse of many banks as well as the revocation of the license of many financial institutions are attributed to the issues of corporate governance (Musah et al., 2019; Maama et al., 2019). This menace usually impacts the asset quality and performance of financial institutions. To sanitize the banking sector, policymakers and major

stakeholders across the world have come out with stringent measures aimed to secure depositors' funds and the collapse of organizations from poor corporate governance mechanisms (Abata et al., 2014). Generally speaking, most studies carried out on board characteristics and asset quality have revealed a positive impact (Abdulazeez et al., 2020; Gafoor et al., 2018) and no significant impact (Gupta and Sharma, 2022). Based on these findings, the relationship between these variables under study is inconclusive. In addition, many studies carried out on board characteristics, asset quality, and firm profitability have been done in countries outside Ghana (Belkhir, 2009; Hakimi, 2018). With this, there is the problem of generalizing those findings to developing countries like Ghana. To the best of the researcher's knowledge, this might be the first time a study that seeks to analyze the nexus between board characteristics, asset quality, and firm profitability is been carried out in Ghana. Currently, empirical evidence in the literature on the subject of board characteristics, asset quality, and bank performance remains nascent in the Ghanaian context. Besides, looking at the importance of the banking sector in terms of credit mobilization, employment creation, and GDP contribution, it becomes imperative to conduct a study of this nature to assess how the structure of a board impacts its asset quality and subsequently performance. Centrally, the purpose of this study is to analyze the relationship among board characteristics, asset quality, and performance of banks in the Ghanaian context.

1.3 OBJECTIVES OF THE STUDY

The main objective of this research was to analyze board characteristics, asset quality, and profitability of banks in Ghana.

Specifically, the study seeks to achieve the following objectives:

1. To evaluate the impact of board size on the asset quality of banks in Ghana.

2. To assess the effect of board independence on the asset quality of banks in Ghana.
3. To analyze the effect of board meetings on the asset quality of banks in Ghana.
4. To investigate the effect of asset quality on the profitability of banks in Ghana.

1.4 RESEARCH QUESTIONS

Based on the objectives of the study, the following are the research questions:

1. What is the impact of board size on the asset quality of banks in Ghana?
2. What is the effect of board independence on the asset quality of banks in Ghana?
3. What is the effect of board meetings on the asset quality of banks in Ghana?
4. What is the effect of asset quality on the profitability of banks in Ghana?

1.5 SIGNIFICANCE OF THE STUDY

The main aim of the study is to assess the relationships among board characteristics, asset quality, and performance of banks in Ghana. Specifically, findings from this study would have relevance for management, practitioners, and academician as to the better understanding of how board characteristics impact both asset quality and firm performance. Under this current dispensation where corporate failure is rampant, board characteristics and asset quality have recently gained increasing attention by both Practitioners, Stakeholders as well as Academicians.

First and foremost, this empirical study contributes to both theory and practice by closely analyzing how board characteristics influence asset quality and firm performance especially, in the banking sector of Ghana. By carefully reviewing literature, this current study might be the first one conducted in Ghana that analyzes the relationship among board characteristics, asset quality, and bank performance. Thus, investigating how board characteristics, asset quality, and firm

performance impact one another may be beneficial for all stakeholders such as government, shareholders, management, and employees, among others.

To management, shareholders, and policymakers, a study of this nature would enlighten them on how board structure impacts the asset quality of banks, which in turn impacts their financial performance. Since research is iterative, a study of this nature could add to the literature and the frontier of knowledge as well as serve as a lead on which future studies could be built.

1.6 BRIEF METHODOLOGY

The main aim of this study was to analyze the relationships among board characteristics, asset quality, and performance of banks in Ghana. The nature of this study calls for quantitative and explanatory study design. With the explanatory study design, the researcher would be able to explain the relationship among board characteristics, asset quality, and firm performance. The study is carried out using universal banks in Ghana. It involves the use of secondary data from the annual financial reports of the selected banks which spans from 2015 to 2020. This study, involving a total of 66 observations followed the methodology in literature utilized in the study of Andoh et al. (2022), hence employing the Generalized Method of Moments (GMM) estimation technique. This estimation model would enable the researcher to take care of the endogeneity issues of the board characteristics. This study controlled for the effects of firm operating age, firm size, total assets, and interest rate. In this study, board characteristics are measured by board size, board independence, and board meetings, while asset quality was measured by non-performing loan ratio. In addition, bank performance was proxied by ROA and ROE.

1.7 SCOPE AND LIMITATIONS

The study covers board characteristics, asset quality, and firm performance. The study will be conducted in Ghana. Secondary data were gathered from the selected banks that are operating in Ghana from their annual financial statements. This study is limited by the inability of the researcher to cover all the banks operating in Ghana. Specifically, the sample size of the study was limited to 11 banks with data spanning from 2015 to 2020. The researcher admits that the outcome of this study could be affected because of the sample size chosen, and hence, the results cannot be generalized since it does not cover all the universal banks operating in the country.

1.8 ORGANIZATION OF THE STUDY

This section of the chapter presents the organization of the study. The study is organized into five chapters. The first chapter is the introductory chapter and presents the background of the study, the problem statement, the objectives of the study, the significance of the study, as well as the scope and limitations of the study, among others. The second chapter presents the literature review of the study. It categorizes the literature review into conceptual review, theoretical review, empirical review, and conceptual framework. Chapter three presents the research methodology and talks about the research design, population, and sample size, data analysis, model specification, as well as the justification of the variables. Chapter four presents the data and analysis of the study per the objectives of the study. Chapter Five presents the summary of findings, and conclusion, and makes recommendations to appropriate stakeholders.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This section of the study presents the literature review on the relationship between board structure, asset quality, and profitability of banks in Ghana. This chapter grouped the review of literature into four sections. These sections are made up of conceptual review, theoretical review, empirical review and conceptual framework. The chapter further presents the hypotheses that were formulated for the study.

2.1 CONCEPTUAL REVIEW

In this section of the study, the researcher reviews the literature on the key concepts that emanate from the study. The section further presents the essence of these concepts to the study. The key concepts reviewed in this section include corporate governance, board size, board independence, board meetings, firm profitability as well as asset quality.

2.1.1 The Concept of Corporate Governance

Corporate governance, which reflects the need for accountability, is mainly required to control and maintain the interest of the stakeholders of a company. Through the concept of corporate governance, transparency and accountability in the affairs of companies are enhanced (Tawfik et al., 2022). Corporate governance is essential for all type of firms as the concept of transparency enhance trust within the framework concerning the major players. For the development of long-term sustainability and performance, the concept of corporate governance should be given much look with respect to companies in both developed and developing countries. Good corporate

governance has been very essential due to the notable world corporate scandals and accounting irregularities; these events were largely attributed to poor corporate governance standards (Sheikh and Alom, 2021). Conflicting interest among major stakeholders buttresses the need for proper corporate governance structure. The concept of corporate governance establishes a framework whereby owners of a company can protect their investments and efficiently maximize their wealth (Gupta and Sharma, 2022).

Generally speaking, corporate governance does not have one definition that has been accepted in literature, however, the Cadbury Report (1992) defined corporate governance as systems, mechanisms, structures and processes which govern and control the affairs of companies towards a specific objective in the interest of stakeholders. Sound business practices as well as prudent management of resources coupled with the safeguarding of the company's assets are created by a good system of corporate governance. This helps a company to achieve a lower cost of capital and achieve high performance to ensure the shareholder's wealth maximization objective (Al-Matari, 2022).

2.1.2 Board Size

The size of a corporate board is considered a key element of corporate governance. Board size is referred to as the total number of Directors that serve on a corporate board. Even though there hasn't been any agreed optimal number of board members in literature, some studies have advocated for large board size and other studies have also called for small board size(Githaiga & Kosgei, 2023). Sequel to this argument, Bokpin & Anastacia C. Arko (2009),studies brought to light a maximum of seventeen members on board to enhance performance. Proponents of small board size argued from the perspective of eliminating the effect of free-riding problem, low cost of administration and coordination. On the other hand, advocates of large board size argue from

the perspective of quality decision-making from members of diverse expertise in different fields of study(Githaiga and Kosgei, 2023). This notwithstanding, there are further studies that depict that large board size might create coordination and communication problems (Nath et al., 2015). According to (Zhou et al., 2019), a large board size has the potential to better manage the risk appetite of bank managers; this reduces their behavior of taking riskier investments. In literature no acceptable board size has been proposed, however, the size of the board is determined by the type of organization as well as their shareholders. Owing to diversity of skills available for decision making and monitoring of the performance of CEOs, large boards are seen as having a positive correlation with stronger firms performance(Al-Matari et al., 2012).

2.1.3 Board Independence

To oversee the activities of managers and see to it that they are in line with the interest of shareholders, independent directors are employed as a result of separation of ownership and control. Under this current dispensation of corporate failures, enough non-executive directors in the boardroom will ensure the attainment of board independence(Githaiga & Kosgei, 2023). Usually, to qualify for the position of an independent director, many jurisdictions have come out with stringent criteria for companies that are quoted on a stock exchange. Usually, its ratio should not be less than one-third of the total number of directors. These stringent measures are therefore put in place to mitigate the agency problem faced by many companies which has led to the collapse of many giant firms(Africa, 2019). Because managers usually pursue their self-interest, Fama and Jensen (1983) were of the view that such activities can be controlled by the independent directors. This is done by controlling and monitoring managers who are involved in the initiation and the implementation of important decisions for the benefit of all stakeholders.

Researchers such as Arora and Sharma (2016) contend the inclusion of independent directors on a company's board leads to effective monitoring of business decisions which reduces the potential of management and shareholder divergence.

2.1.4 Board Meetings

Board meetings plays a crucial role in the corporate governance structure of an organization. The frequency of board meetings is required by the board to control the activities of managers and to protect the interest of shareholders. This help to reduce the agency problem by conveying information to managers and shareholders in a transparent manner(Elmagrhi et al., 2017). To enhance firm performance, many scholars have highlighted on the relevance of frequent board meetings as it provides the board with the ability to monitor and control the activities of the firm (Elmagrhi et al., 2017; Mayur & Saravanan, 2017). To the shareholders of a company, frequent board meetings convey a message of security to them and align their wealth maximization interest with the behavior of managers. This is as a result of the fact that, frequent board meetings build a culture of greater monitoring and supervision by Top management within an organization(Mayur & Saravanan, 2017) and the banking sector is no exception. Then again, frequency of board meetings also lead to timely monitoring of business activities, reduction in agency cost and better performance of firms(Titova, 2016).

With the number of times a board is supposed to meet, researchers are of the view that the fewer the meetings the better the performance of the institution. They are of the view that board meetings should be important and less frequent(Eluyela et al., 2018).There are studies that suggest that frequent board meetings have a positive impact on corporate performance and other studies also holds a contrary view; making mention of the fact that frequent board meetings increase agency cost(Ntim et al., 2017).According to Musleh Alsartawi(2019), large banks are able to appoint

qualified and experienced board member which allows them to have fewer board meeting. This results in reduced agency cost and an increased ROA of large banks. This position is also confirmed by (Salim et al., 2016) with the outcome of their studies which concluded that, the regular meetings conducted by the board committees correlate positively with firm's efficiency whilst the number of board meetings have no significant impact of the performance of management.

2.1.5 Asset Quality

Asset quality is considered as one of the important elements for determining the financial soundness and health of a bank and also to a large extent the whole economy of a country(Mostak Ahamed, 2017). According to Wikipedia, asset quality is an evaluation of assets to measure the credit risk associated with it. There are several determinants of the assets quality of banks. In a study by Alhassan et al.(2014) it was established that market concentration, bank size and income diversification has a positive impact of assets quality. On the other hand, interest spread and credit growth impact negatively of the quality of banks assets. It is also wealth noting that, assets quality and the profitability of banks are inversely related; an increase in non-performing loan leads to a decrease the banks' profitability and vice versa (Kadioglu et al., 2017). The high volume of credit creation equates to higher income potential which usually triggers bank managers to give out more credit facilities. This situation usually creates instability and failures in the financial system of an economy. Changes in the macro-economic variables may also subject the borrower to the risk of default (Joseph et al., 2012). This reality has necessitated the need for banks to manage their assets with very robust credit policies and practices so as to ensure good assets quality.

Asset quality impairment in the form of non-performing loans impact negatively on the profitability and liquidity of banks, and is regarded as a harbinger of insolvency as well as the

failure of many banks, which can eventually result in a market risk which has a dare repercussion on the financial system of the economy (Adebisi et al., 2020). In the words of Dullien et al.(2010), the global financial crises in 2008 affected the asset quality of many financial institutions in developing countries. This means that assets quality is a critical component in the measuring of banks' financial soundness in the long-run. The consolidation of 5 banks in Ghana which was linked to weak corporate governance mostly shed light on non-performing loans in their operation. The revitalization of the banking sector in Ghana led to measure being introduced by the Central Bank of Ghana. These measures include the recapitalization of banks' minimum capital to GHS400m to sanitize the banking sector.

Loans and advances are classified as significant assets owned by banks. Thus, in achieving the objective of corporate institutions, there is a need for banks to manage them effectively. Banks encounter non-performing loans problems after credit booms or protracted periods of low growth in structurally weak financial systems. This has a negative impact on the profitability and solvency of banks since banks tighten their risk appetite and tolerance for new loans(Baudino & Yun, 2017). Banks are susceptible to default risk from borrowers as they (banks) continue to operate and trade on credit (loans) basis(Joseph et al., 2012). Credit risks finds a major role to play in the financial performance of banks when the loans granted to their clients fail to yield appropriate result (income). Hence, banks are liable to record higher NPLs which worsen their asset quality and leads to poor profitability levels (Alawiye-Adams & Awoniyi, 2017). A numbers of studies have suggested that NPLs is a function of both internal(credit decisions and practices) and external factors(macroeconomic factors) (Alawiye-Adams & Awoniyi, 2017; Bacchiocchi et al., 2022; Latif Alhassan et al., 2013; Sánchez Serrano, 2021) . In defining NPL, Abdullazeez et al. (2019)

put forward that a loan is classified as non-performing when the interest together with its principal remains unpaid for 90 days or more.

When bank loans are tagged as non-performing, it impairs the potential of the bank to generate income. This clearly confirms the assertion by most researcher that NPLs is very crucial to the survival of banks(Adebisi et al., 2020; Alhassan et al., 2014; Bacchiocchi et al., 2022; Kadioglu et al., 2017; Latif et al., 2013; Sánchez Serrano, 2021). NPLs according to Alhassan et al., (2014), attributes the main causes of loans being defaulted to the imbalance of information in credit market. Banks will probably grant loans to high-risk clients due to asymmetry of information. The chance of default worsened when the high-risk borrowers place the loans in uncalculated and highly risky businesses.

2.1.6 Firm Profitability

Profitability in the general sense is the earnings of a company that is generated from revenue after deducting all expenses. The profitability levels of a firm is signal to all stakeholder (Managers, Shareholders and Investors) about the sustainability or survival of the firm(Alarussi & Alhaderi, 2018). Following Awuah Nyarko et al., (2017), firms which are well-governed and democratic tend to enjoy higher profits due to high growth rate in sales which eventually reduces bankruptcy risk of firms. The criteria used to assess a company's financial performance are always determined by the analyst's justification and preference. Profitability is considered as one of the key performance indicators of firms(Tornyeva, 2012). Empirical literature revealed that proxies such as ROA, ROE, EPS, and among others are proxies used to assess the performance of firms(Eluyela et al., 2018; Tornyeva, 2012). The profitability of a company is needed by government for tax purposes, shareholders for their value maximization, employees for their salaries and bonuses,

community for their CSR activities, executives for their perks and bonuses and creditors for their interest earned (Gafoor et al., 2018).

2.2 THEORIES

This study is premised on agency theory and stakeholder theory. Under this section, the researcher discusses the agency and stakeholder theory as used in corporate governance studies and demonstrate how these theories support the findings of the study. The stewardship theory is relevant to the study because the board is considered as agents who steer the affairs and act as stewards of the firm. The agency theory is also deemed important to this study because the stewardship theory is insufficient to explain the segregation between owners and managers who manages the firm on shareholders behalf. As this study intends to analyze the impact of board structure on asset quality, it draws upon these two theories in understanding how the assets (particularly of shareholders' funds) are properly managed to ensure the going concern concept of the organization.

2.2.1 Agency Theory

The agency theory which postulates that there is a problem with respect to the connection between principal (owners of a firm) and managers (also known as agents) was propounded by Jensen and Meckling (1976). This demands a control mechanism, named as an agency cost incurred by owners to supervise the duties of their agents. The agency theory view managers and shareholders as agents and principals respectively. In Sanda's et al (2005) explanation, the asymmetry of information can cause managers to undertake projects that may benefit them to the detrimental

interest of the owners. In the process of aligning these groups interest, conflicts usually ignite between the two parties (managers and shareholders).

To be specific, the managers' actions and inactions do not always support the welfare of the owners of the firm, and these actions are deemed harmful to the chances of the owners. Most often, the managers' interest does conflict with shareholders. The former can exploit the latter by entrenching themselves to remain occupied on their positions even if they are incompetent in handling the affairs of the firm. According to Glinkowska & Kaczmarek,(2016), stakeholders (agents and principal) are motivated by different needs. The main motivating factor for managers is financial and this give credence to the fact that it is very necessary to align the agent behaviour with shareholders' interests. When this is done effectively, firms' performance is positively impacted; the interest of agents will coincide with the interest of principal and this will reduce or eliminate agency problem (Udeh et al., 2017). The theoretical review of this work relies on both the agency theory and the stakeholder theory in the sense that it gives room for managers to have a clear focus on people whose interest are being serves. In addition, the nature of the banking sector activities gives room for participants of various interests to interact and function, hence the two theories remain significant.

2.2.2 Stewardship Theory

The stewardship theory for some past decades has caught the attention of many researchers and experts particularly in field of accounting and finance. The stewardship theory is often associated with Theodore Roosevelt. Managers are seen as good stewards who put up their best and work hard to attain high profitability in achieving the dreams of the organization whiles at the same time appeal to the owners of the corporate firm (Akingunola et al., 2013). The rationale behind this

theory is that managers are driven by achievement. In serving this purpose better, key stakeholder dwell on the duties of non-executive directors.

The stewardship theory is relevant to the study because the board is considered as agents who steer the affairs and act as stewards of the organization in pursuance to the objectives of the firm. The theory holds on the assumption that there exist an association between the interest of management and that of shareholders. Therefore, management is expected to make decisions that reflect the maximization of shareholders' wealth. Ideally, it is through firm performance that the managers protect and maximize the value of these shareholders. In order to achieve the goal of maximizing the value of the firm, shareholders must put in place some mechanisms on corporate governance and structures to facilitate the autonomy of management. This will prompt management to make decisions that seek to maximize the value of the firm at the expense of their self-servicing objectives. The interest of executive managers is to do a good job or be good stewards of firms' assets (Donaldson and Davis, 1991).

The stewardship theory is of the view that the Boards and Managers are stewards whose interest are automatically aligned(Keay, 2017). . The stewardship theory is a sociological theory which is substitute to the theory of agency that serves as prognostication about the effective board structure for best performance. As to managers' quest in managing the firm well (stewards), the stewardship theory is still a reservation. A corporate institution can be managed effectively through the application of corporate governance to increase the asset quality of financial institutions (Abdulazeez et al., 2019).

2.3 EMPIRICAL REVIEW

This section of the chapter presents the empirical literature review of the study. The empirical review of literature had been conducted by blending studies from both advanced and emerging economies. The researcher presents the empirical review based on the specific objectives of this study. The next sub-sections review empirical literature based on the study's specific objectives.

2.3.1 Relationship between Board Size and Asset Quality of Banks

Wei-Kang et al. (2012), as cited by(Adeiza Abdulazeez et al., 2019) employed regression analysis in their study to assess the association between corporate governance and asset quality. Their work reported a significant direct connection between the study variables. The researchers' findings are in line with a study by Rong et al. (2014) who also revealed in their findings a positive connection between board size and asset quality. However, a study by Ravi and Martin (2013), as cited by(Adeiza Abdulazeez et al., 2019) established an inverse association between board size and NPLs. A board with high size is able to supervise, monitor and control the activities of the banks to enhance the asset quality which can translate to their financial performance in the long-run.

Then also as cited by (Khatun & Ghosh, 2019), Maria et al., (2016) through their studies has confirmed that the size of a corporate board impact strongly and negatively related to each other. This means that an increase in the number of board members will improve the quality of assets; the firm performs better and also experience low default ratio in their operations and vice versa. As better decisions are taken by larger board size, so does the firm improve the accuracy of their credit risk mitigation which results in better asset quality (Maria et al., 2016). A GMM estimation results from a study by Maria et al. (2016) shown that board size has a negative association with asset quality which was proxied by non-performing loans. The empirical results of their study

opened to the view that large board size has a significant but inverse connection on asset quality of banks. The findings from the study confirm extant literature that reported that larger board size lower the NPL ratio and improves the asset quality of firms (Javed et al., 2013; Wang and Hsu, 2013). Based on this argument, the study hypothesizes that:

H1: Large board size has a significant negative impact on asset quality of banks.

2.3.2 Relationship between Board Independence and Asset Quality of Banks

A theory has been created by Fama and Jensen (1983) that gave the directors of the firm internal control mechanisms to steer the affairs of the top-level management. The rationale behind this theory is that it is easy for independent directors to monitor the affairs of the company without any secret agreement with the top managers of the organization to deprive the wealth of shareholders. Diverse firms engage different independent directors on the board to be instrumental in checking and reducing financial fraud of the company (Maria et al., 2016). As argued by Beasley (1996), the composition of large independent directors on the board has the ability to better the policy framework of the firm and reduces the possibility of any financial misconduct.

Maria et al. (2016) observed in their study that the extent of the independent directors' political connection impact negatively on the asset quality and the performance of the banks under study. Again, their study revealed that the presence of high independent directors serving on the board exposes the firm less to financial fraud and also better the asset quality of the company. Under different GMM method, the results obtained in the study of Maria et al. (2016) revealed a direct connection between independent directors and asset quality of firms under study. The nature of the results revealed that as the number of independent directors on the board increases, the incident of classified loans of the banks increases. This may be due to the fact that the independent directors

are more concerned with short term gains as compared to balanced policy implementation by the banks. This argument contradicts extant literature that reported a negative connection between board independence and asset quality of banks (Pathan & Faff, 2013). Nevertheless, a study by Switzer et al., (2018) also reported a positive connection between board independence and asset quality. In addition, Abdul Gafoor et al., (2018) also established a positive relationship between Board independence and banks performance. Nyor, (2013) study brought to light that there exist no connection board independence and asset quality of banks. Based on this argument, the study hypothesizes that:

H2: Board independence significantly affects the asset quality of banks positively.

2.3.3 Relationship between Board Meetings and Asset Quality of Banks

According to Adams and Ferreira(2007), as cited by (Titova, 2016), the frequency of board meetings can be considered as a proxy for the efficiency of a firm's board. This gives members of the board an opportunity to obtain more information about the firm. Vafeas (1999) as cited by (Titova, 2016), confirmed the importance of board meetings as a characteristic. Godard & Shatt (2004) as cited by (Ofoeda et al., 2016) through their studies indicated that the increased number of meetings positively impacts the performances of financial companies. Frequent board meetings are recommended and have been highlighted in literature to better the asset quality of the banks as a result of the monitoring role of the directors.

A significant effect on board meetings and asset quality has been established on studies pertaining to the banking sector. Liang et al., (2013) as cited by (Gafoor et al., 2018), also confirmed that fact that the number of board meetings and assets quality are positively related. Gafoor et al., (2018) holds a contrary view to the early assumptions that the number of board meeting and assets quality

are positively related. They are of the view that there isn't any significant relationship between the number of board meetings and assets quality. Based on this argument, the third testable hypothesis of this study emerges:

H3: Board meetings have significant negative effect on asset quality of banks.

2.3.4 Relationship between Asset Quality and Profitability of Banks

Before a bank can be declared bankrupt, there should exist some sizable amount of loans which are deemed non-performing. This has made asset quality an essential variable in finance literature (Adeolu, 2014). Similarly, Omolumo (2009) contend that banks face challenges when loans that are not repaid are written off as bad debt. This usually impact negatively on the profitability of the banks. In line with this assertion, one key feature of a quality bank is its good asset quality component. Given that bad asset quality can downgrade the quality of banks and also reduce their performance, it is imperative for management to institute measures to reduce the incidence of loans being declared as non-performing (Abdulazzez et al., 2019). Abata (2010) as cited by (Lotto & Kakozi, 2019) argued that asset quality and profitability of banks are positively related in the sense that if the asset quality of banks is insufficient, it will increase bad debt. This means that deterioration in the asset quality of banks impact negatively on their general soundness and financial performance. Yin (1999) as cited by (Nzoka, 2015)revealed that the financial crises among many Asian banks is due to deterioration in their asset quality. In Ghana, (Alhassan et al., 2014) revealed that increase in assets quality affects the profitability of banks. Consequently;

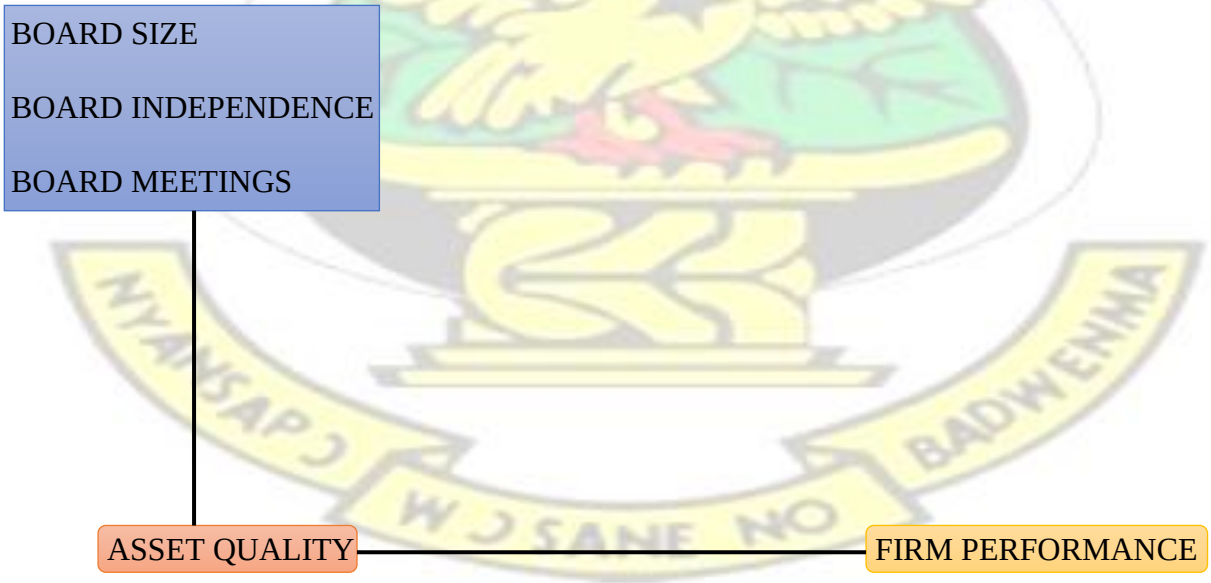
H4: Poor asset quality impact negatively on the profitability of banks.

2.4 CONCEPTUAL FRAMEWORK

In this section of the study, the researcher presents the conceptual framework model diagrammatically. These variables involved in the conceptual framework include the dependent, independent, and the control variables. The study aimed to analyze whether board structure has an impact on the asset quality and profitability of banks in Ghana. This study presents the conceptual framework after a thorough review of literature. The framework depicts the relationship that exists between the dependent and the independent variables. The researcher further formulated hypotheses to be tested through the literature review. In all, four testable hypotheses emerged for the study. This study hypothesized that large board size, board independence as well as frequent board meetings have a significant positive impact on the asset quality of banks. The study also hypothesized that poor asset quality impact negatively on financial performance of banks.

Figure 2.1 presents the conceptual framework model of the study.

Figure 2.1: Conceptual Framework Model



Source: Researcher's Construct (2023)

2.5 SUMMARY

In summary, the researcher seeks to establish if there is a relationship between board characteristics, assets quality and profitability of Banks in Ghana.

The literature review has explained the concept of corporate governance making reference to various studies done by researchers across the globe. An attempt has also been made to draw knowledge from past research work to explain two key theories that relate to the topic under discussion; agency theory and stewardship theory. Review of empirical studies of past research work also brought to light various relationships that exist between board characteristics, assets quality and banks' profitability or performance. This informed the researcher's formation of various hypotheses for the study. It is quite evident that researchers across the globe have come out with different results on the relationship that exists between board characteristics and assets quality, and asset quality and firms profitability. It can be deduces from the empirical review that little or no work has been done to establish the relationship between board characteristics and bank assets quality and the profitability of commercial banks in Ghana. This study, therefore, sought to analytically establish the various relationships.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter of the study presents the methodology employed to assess board characteristics, asset quality and profitability of banks in Ghana. The chapter presents the research design, population, sample size, data analysis and the model specification. Basically, section 3.1 presents the research design; section 3.2 and 3.3 presents the population, and sample size respectively; section 3.4 detail the data collection, while section 3.5 covers the data analysis techniques.

3.1 RESEARCH DESIGN

Research design of a study can be classified into exploratory, explanatory or descriptive (Saunders et al., 2019).The research design a researcher will chose for a study depends on the nature and objectives of the study. Whiles descriptive study design seeks to describe a phenomenon under study, exploratory design is adopted for studies where not much information can be obtained or areas where limited studies have been carried out. An explanatory study approach was used to analyze the phenomenon under investigation. The researcher adopted the explanatory study design to enable the explanation of the relationship between the variables. The explanatory study design would enable the researcher to utilize research tools to explain and analyze the relationship among board characteristics, asset quality, and firm performance.

A research approach to social science studies can either be quantitative, qualitative or a mixed study approach (Yin, 2013). The research approach that underpins this study is the quantitative approach. This study indeed calls for a quantitative approach looking at the nature of the phenomenon under investigation. The quantitative make use of numeric numbers and statistical

tools to draw analyze a study and draw conclusions from it. The qualitative study place emphasis on process and meanings. According to Creswell and Creswell (2017), the qualitative study approach usually relies on non-numerical dataset, interviews and observations. The quantitative study approach would enable the researcher to utilize numbers and statistical tools to analyze the relationship among board characteristics, asset quality and firm performance.

3.2 POPULATION OF THE STUDY

The population of a study involves the total number of observations from which a sample can be drawn from. The population of the study revolves around universal banks in Ghana. Currently, 23 universal banks are operating in Ghana after the banking sector clean-up exercise (Affum, 2020). Hence, the study has a total population of 23 universal banks in Ghana.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUE(S)

All the 23 universal banks cannot be utilized in this study. Hence, the need for the researcher to select a sample. Eleven (11) universal banks operating in Ghana were sampled for the study. These banks include Prudential Bank, CAL Bank, Access Bank, Republic Bank, Ecobank, GCB, Standard Chartered, Société General, ADB, Absa Bank, and Fidelity Bank. Convenient sampling techniques were used in selecting these banks for the study. These banks were conveniently selected based on accessibility and the ease of obtaining data from their annual published reports.

3.4 DATA COLLECTION

The nature of this study calls for the use of secondary data from the annual financial statements of the selected 11 banks in Ghana. The secondary data of this study used for the analysis covers a 6-year period from 2015 to 2020. These published financial statements were retrieved directly from the websites of the selected 11 banks. Data on variables including board size, board independence, board meetings, total assets, NPL, ROA and ROE were obtained directly from the published financial statements of the banks for the analysis. However, data on GDP and inflation rate as another control variable was obtained from the bank of Ghana website.

3.5 DATA ANALYSIS

The data were analyzed quantitatively with the use of SPSS v 26 and Eviews v 7. Both descriptive and inferential statistics were employed in the data analysis. Analytical models such as the mean, frequencies, standard deviation, and percentages, among others, were employed. The researcher performed diagnostic tests on the data to validate it in order not to bias the regression model results. In this study, tests for autocorrelation, heteroscedasticity as well as normality tests were carried out in a way of purifying the data for sound statistical analysis. In addition, the researcher performed a Hausman test to determine whether the fixed effect model or the random effect model was appropriate for the study.

This study adopts the model used in the study of board characteristics by Andoh et al. (2022), Specifically, the study used the panel regression approach since it has been used in many studies relating to board characteristics, asset quality, and firm performance. Specifically, since the fixed effect model considers the difference that may exist among the board structure of different banks,

it was chosen over the pooled OLS which treat the data as a time series. The proposed model for this study is given as;

$AQ_t = \alpha + \beta ó + \varepsilon_t$…….…… (1)

Where;

AQ- Asset Quality

a- is the intercept

t – Represents the time from 2015 to 2020

ε_t- error term

Specifically, the relationship has been modeled below;

$NPL_t = \alpha + \beta 1BS_t + \beta 2BI_t + \beta 3BM_t + \varepsilon_t$…….. (2)

$ROA_t = \alpha + \beta 1NPL_t + \varepsilon_t$…….…….. (3)

$ROE_t = \alpha + \beta 1NPL_t + \varepsilon_t$……... (4)

From the model,

NPL represents non-performing loan ratio,

BS represents Board size

BI represents Board independence

BM represents Board meetings

ROA represents Return on Asset

ROE represents Return on Equity and

β1-β3 denotes the regression parameters.

3.6 RELIABILITY AND VALIDITY OF DATA (PRE-TEST)

In this section, the researcher describes the variables, their proxies and the expected signs. This has been presented in Table 3.1

Table 3.1 Variable Description, Measurement and Expected signs

Variables	Proxies	Measurement	Expected sign
Dependent Variables	Asset quality	Non-performing loan ratio (total non-performing loans to total outstanding loans)	
	Firm performance	ROA (net income to total assets)	
		ROE (net income to total equity)	
Independent Variables	Board Characteristics	Board size	Positive (+)
		Board independence	Positive (+)
		Board meetings	Positive (+)
Control variables	Firm size	Log of total assets	Positive (+)
	Firm operating years	Total years it has operated	Positive (+)
	Total assets	Total assets	Positive (+)
	GDP	monetary value of goods and services of a country	Positive (+)
	Inflation rate	consumer price index	Negative (-)

Source: Author's Construct (2022)

3.6.1 Dependent Variables

The dependent variables of this study are represented by asset quality and firm performance. Asset quality in this study is proxied by non-performing loan ratio (NPLs) as used in the prior studies (Javed et al., 2013; Wang and Hsu, 2013; Gafoor et al., 2018). Similarly, Firm performance is proxied by ROA and ROE. Asset quality and firm performance are fundamental concepts essential in corporate finance (Appiah et al., 2017; Gafoor et al., 2018).

3.6.2 Independent Variables

With respect to the independent variables, three proxies were used. These include board size, board independence, and board meetings. Board size has to do with the size of members sitting on the board. Board independent pertains to the number of outside directors sitting on the board, while board meeting relates to the number of meetings carried out by the board in a year. Studies such as Abdulazeez et al. (2019) proxied board characteristics with include board size, board independence, and board meetings.

3.6.3 Control Variables

In this study, both bank-specific and macroeconomic variables were employed as control variables. Specifically, firm age, firm size, total assets, GDP and inflation rate were controlled for in this study. While firm age relates to the number of years the firm has operated since its commencement, firm size is calculated by logging the total assets. This had been confirmed in a study by Kumar et al. (2015). In this study assets relates to all resources owned and controlled by the firm. To partial out the effect of asset quality, inflation rate was employed as another control variable (Ahamed et al., 2017).

CHAPTER FOUR

PRESENTATION OF DATA, ANALYSIS, AND DISCUSSION OF FINDINGS

4.0 INTRODUCTION

This chapter presents and discusses the results of this study concerning the objectives of the study. The descriptive statistics are presented, and then the results are presented in direct order of the objectives.

4.1 DESCRIPTIVE STATISTICS

Table 4.1 shows the descriptive statistics of all the variables for the period from 2015 to 2020. It is seen that sampled firms could not generate enough returns on the assets entrusted to them.

The mean of non-performing loan ratio value of 0.136 indicates that, on average, loans with a non-performing status constitute approximately 13.6% of the total loans. The results of this study illustrate that the mean ROA value of 0.021 indicates that, on average, banks in Ghana have a return on their assets of 2.1%. The mean ROE value of 0.032 indicates that, on average, banks in Ghana have a return on their equity of 3.2%.

The mean board size is 9.790, indicating that, on average, there are approximately 9.79 members on the board. This indicates a relatively moderate level of dispersion in board sizes. The mean board independence is 6.450, indicating that, on average, the board has a level of independence of 6.450 out of 10. A higher score signifies a greater level of independence. This shows a moderate level of dispersion in board independence scores. The mean number of board meetings is 15.260,

indicating that, on average, the board holds approximately 15.26 meetings. This implies a relatively high level of dispersion in the frequency of board meetings among banks in Ghana.

The mean firm size is 8.174, indicating that on average, the banks in Ghana have a size of 8.174. The standard deviation of 0.618 suggests that the firm sizes vary around this mean. Smaller standard deviation indicates a relatively narrow range of values, which implies that the firm sizes are relatively consistent or similar. The mean firm age is 39.580, indicating an average age of 39.580 years for banks in Ghana. This suggests that banks in Ghana span across a broad range of ages, with some being relatively young and others being older. The mean total assets is 0.506, indicating an average value of 0.506 for the total assets of the banks. The standard deviation of 0.275 suggests that the total assets vary around this mean. Similar to firm size, a smaller standard deviation implies a relatively narrow range of values for the total assets.

For GDP, the mean value is 61.238, indicating that the average value of GDP in Ghana is 61.238. This gives us a reference point for understanding the overall economic performance. Moving on to inflation, the mean value is 11.972, indicating an average inflation rate of approximately 11.972. This helps us understand the general level of price changes in the economy.

The control variables show that sampled banks are older and mature, with a significant asset base in the Ghanaian market. Again, the mean inflation figures show that Ghanaian banks had to deal with a high inflation rate, reducing their purchasing power.

Table 4.1: Descriptive Statistics

Variables	Obs	Mean	Std. Dev.
Non-Performing Loan Ratio	66	0.136	0.061
ROA	66	0.021	0.020
ROE	66	0.032	0.026
Board Size	66	9.790	1.584
Board Independence	66	6.450	1.303
Board Meetings	66	15.260	6.615
Firm Size	66	8.174	0.618
Firm Age	66	39.580	24.115
Total Assets	66	0.506	0.275
GDP	66	61.238	8.016
Inflation	66	11.972	4.146

Source: Author's Construct (2023)

4.2 CORRELATION ANALYSIS

The values in the correlation table are examined for multicollinearity between the variables. In Table 4.2, all of the independent variables have absolute values that are less than 10. This suggests that all the independent variables are free from the multicollinearity problem.

Table 4.2 Variance Inflation Factor (VIF)

Variable	VIF
Firm Size	3.53
Total Asset	3.26
Firm Age	2.78
Board meetings	2.71
Inflation	2.56
Board Independence	1.49
Board Size	1.08
GDP	0.67
Mean VIF	2.26

Source: Author's Construct (2023)

4.3 HAUSMAN TEST

The Hausman test was further employed to confirm and determine the best estimator to apply for the panel data. The null hypothesis is that the preferred model is random effects; the alternate hypothesis is that the model is fixed effects. The model indicated in Table 4.3 is efficient under the fixed-effect model. Hence, the fixed-effect model is the best estimator to apply for this study.

Table 4.3: Hausman Test

	Test	Stat	P-value	Conclusion
Model 1	Hausman Test	0.004	0.012	Fixed-Effect Supported

Source: Author's Construct (2023)

4.4 AUTOCORRELATION AND HETEROSKEDASTICITY TEST

Table 4.4 depicts that the significance level for the Wooldridge test for autocorrelation is above five (5) percent. This suggests the absence of autocorrelation. However, the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity shows that the significance level is below five (5) percent. This suggests that the null hypothesis (Homoskedasticity) is rejected in favour of the alternate hypothesis confirming the presence of heteroscedasticity. In order to prevent spurious regression, the problem is controlled using Driscoll and Kray covariance metric estimator.

Table 4.4 Autocorrelation and Heteroskedasticity Test

Stat	**Sig**	**Meaning**
2.32	0.271	No serial correlation
4.56	0.013**	Heteroskedasticity

Source: Author's Construct (2023) ***: 5% significant level*

4.5 NORMALITY TEST

Table 4.5 presents the Shapiro-Wilk W test for normal data. The table shows that all the variables' p-values are below the five (5) percent significance level. This implies that the distribution of the data is non-normal. According to Hoeffding and Robbins (1948), the central limit theorem posits that in cases where the sample size is adequately large, any deviation from this principle does not pose a problem for the regression. According to the findings of Ghasemi and Zahediasl (2012), the consideration of normality is not a concern in studies that have a sample size of more than 30. The current study comprises a total of 66 observations.

Table 4.5: Normality Test

Variable	Obs	W	V	Z	P-value
ROA	66	0.87	8.77	6.63	0.001
ROE	66	0.85	6.34	5.72	0.003
Board Size	66	0.88	11.22	8.59	0.032
Board Independence	66	0.91	6.71	6.82	0.020
Board Meetings	66	0.81	7.23	7.66	0.014
Non-Performing Loan Ratio	66	0.89	8.46	7.54	0.009
Total Assets	66	0.91	7.96	6.57	0.004
Firm Age	66	0.80	6.67	7.94	0.000
GDP	66	0.79	12.86	8.46	0.002
Inflation Rate	66	0.87	7.35	6.19	0.017

Source: Author's Construct (2023)

4.6 REGRESSION RESULTS

The findings of the regression results are presented in Table 4.6 to Table 4.8 below. Moreover, the results are further discussed in sections 4.6.4 to 4.6.7.

4.6.1 Regression Analysis for Non-Performing Loan Ratio

The regression used "non-performing loan ratio" as the dependent variable and "board size," "board independence," and "board meetings" as the independent variables. In addition, the control variables added were firm size, total assets, firm age, GDP, and inflation rate.

Generally, the predictor variables account for 41% of the variance observed in the outcome variable. The coefficient of determination, commonly referred to as R-square (R^2), serves as an indicator of the extent to which the model effectively captures the variability of the study variables (Field, 2009). The study's utilisation of predictor variables accounts for barely 41% of the variance, indicating the presence of additional predictors that were not incorporated into the analysis. The results of the first regression are presented in Table 4.6 below.

Table 4.6: Regression Analysis for Non-Performing Loan Ratio

	Coef.	**Std. Err.**	**t-stat**	**P-value**
Constant	10.484	2.154	7.347	0.043
Board Size	1.004	0.007	1.044	0.003
Board Independence	0.435	0.038	0.314	0.000
Board Meetings	0.027	0.040	0.446	0.001
Firm Size	0.074	0.118	0.743	0.031
Total Assets	0.063	0.047	1.035	0.008
Firm Age	1.015	0.009	0.145	0.044
GDP	0.022	0.071	0.034	0.002
Inflation Rate	0.006	0.034	0.228	0.031
Observation	66			
R^2	0.41			

Source: Author's Construct (2023)

4.6.2 Regression Analysis for Return on Assets

In the second regression analysis, the dependent variable was changed from "non-performing loan ratio" to "return on asset," whilst the independent variables were changed to "non-performing loan ratio" but the controls, remained the same. In all, the predictor variables account for 39% of the variance observed in the outcome variable. The study's utilisation of predictor variables accounts for barely 39% of the variance, indicating the presence of additional predictors that were not incorporated into the analysis. The results of the second regression are shown in Table 4.7.

Table 4.7: Regression Analysis for Return on Assets

	Coef.	**Std. Err.**	**t-stat**	**P-value**
Constant	4.114	2.010	3.006	0.301
Asset Quality	0.543	0.042	0.547	0.017
Firm Size	0.417	0.044	0.831	0.024
Total Assets	0.131	0.031	1.226	0.007
Firm Age	0.368	0.027	0.654	0.012
GDP	0.018	0.030	0.077	0.005
Inflation Rate	0.035	0.043	0.162	0.013
Observation	66			
R^2	0.39			

Source: Author's Construct (2023)

4.6.3 Regression Analysis for Return on Equity

In the third regression analysis, the dependent variable was changed from "return on assets" to "return on equity," whilst the independent variables were changed to "non-performing loan ratio" but the controls, remained the same.

In all, the predictor variables account for 43% of the variance observed in the outcome variable. The study's utilisation of predictor variables accounts for barely 43% of the variance, indicating the presence of additional predictors that were not incorporated into the analysis. The results of the third regression are shown in Table 4.8.

Table 4.8: Regression Analysis for Return on Equity

	Coef.	**Std. Err.**	**t-stat**	**P-value**
Constant	5.484	2.154	4.347	0.043
Asset Quality	0.644	0.072	0.644	0.000
Firm Size	0.026	0.124	0.274	0.051
Total Assets	0.105	0.021	0.335	0.001
Firm Age	0.431	0.039	1.041	0.009
GDP	0.029	0.114	0.146	0.032
Inflation Rate	0.041	0.034	0.432	0.003
Observation	66			
R^2	0.43			

Source: Author's Construct (2023)

4.6.4 Board Size and Asset Quality

The results indicate that there is a significant positive relationship between asset quality and board size in banks. This means that as the board size increases, the asset quality of the bank also improves.

There are a few possible explanations for this relationship. First, a larger board size can bring in more diverse expertise and knowledge from different areas, enabling better decision-making and risk assessment. With a wider range of perspectives, the board is more likely to identify potential risks and take necessary measures to maintain asset quality.

Secondly, a larger board size can enhance the bank's governance mechanisms. It allows for more effective monitoring and oversight of management activities, reducing the likelihood of mismanagement or risky behaviour. This, in turn, can contribute to maintaining a higher level of asset quality.

The finding supports the first hypothesis of the study which underscores that; large board size has a significant negative impact on the asset quality of banks. This finding is consistent with the studies of Maria et al. (2016) and Abdulazeez et al. (2019) who also found a positive relationship between asset quality and board size.

4.6.5 Board Independence and Asset Quality

The results of the study depict that there is a significant positive relationship between asset quality and board independence suggesting that banks with better asset quality tend to have a more independent board. This can be attributed to several factors:

Banks with better asset quality may have stricter lending practices and risk management systems in place. These banks are more likely to attract independent directors who have expertise in risk assessment and can contribute to the board's oversight of loan quality.

Independent directors are more likely to provide objective judgment and challenge management decisions. They can bring diverse perspectives, knowledge, and experience to the board, which can help to improve the bank's overall governance and risk management practices.

Banks with good asset quality may have a culture that promotes transparency and accountability. This can attract independent directors who value these principles and are more inclined to join the board. Such directors are likely to demand and ensure the availability of accurate and timely information to make sound decisions.

This finding supports the second hypothesis which states that; board independence significantly affects the asset quality of banks positively. This finding of the study is in agreement with prior studies which documented a significant positive relationship between asset quality and board independence (Switzer et al., 2018).

4.6.6 Board Meetings and Asset Quality

The research findings indicate a significant positive relationship between asset quality and board meetings. This suggests that banks with better asset quality tend to hold more frequent and effective board meetings.

Banks with a stronger focus on asset quality are likely to prioritize risk management in their decision-making process. Holding regular board meetings allows the bank's management to

discuss and review strategies for managing risks associated with loan quality, identifying potential issues, and implementing appropriate measures to mitigate risks.

Frequent board meetings enable the bank's management to actively monitor asset quality and make timely decisions to address any emerging issues. This includes evaluating the loan portfolio, reviewing credit policies, setting appropriate risk management guidelines, and making adjustments as necessary.

This finding is in line with the third hypothesis which states that; board meetings have significant negative effect on asset quality of banks. Furthermore, this finding is in sync with that of previous studies (Gafoor et al., 2018).

4.6.7 Asset Quality and Profitability of Banks

The study found that there is a strong positive relationship between asset quality and profitability of banks. When a bank maintains a high-quality asset portfolio with fewer non-performing loans, it is more likely to generate higher profits.

There are several reasons for this positive relationship. Firstly, banks with better asset quality face lower credit risk, as they have fewer loan defaults. This leads to lower provisions for loan losses, reducing expenses and improving profitability.

Secondly, superior asset quality enhances a bank's reputation and credibility, attracting more depositors and investors. This increased confidence results in a lower cost of funds, creating additional profitability for the bank.

Thirdly, banks with sound asset quality are better equipped to withstand economic downturns and financial crises. By minimizing loan defaults and maintaining a strong capital base, these banks can navigate turbulent times more effectively, thereby preserving profitability.

This finding does support the fourth hypothesis which states that; poor asset quality impact negatively on the profitability of banks. This finding is consistent with prior studies (Abdulazzez et al., 2019; Lotto & Kakozi, 2019).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

The results of this research are summarised in this chapter. In addition, the conclusion, recommendations, and limitations of the study are presented in this chapter.

5.1 SUMMARY OF FINDINGS

The main objective of this research was to analyze board characteristics, asset quality, and profitability of banks in Ghana. Using data from the annual reports of 11 banks spanning from 2015 to 2020. The study made the following findings

The first objective of the study is to evaluate the impact of board size on the asset quality of banks in Ghana. The results of the study depict that there is a significant positive relationship between asset quality and board independence suggesting that banks with better asset quality tend to have a more independent board.

The second objective of the study was to assess the effect of board independence on the asset quality of banks in Ghana. The results of the study depict that there is a significant positive relationship between asset quality and board independence suggesting that banks with better asset quality tend to have a more independent board.

The third objective of the study was to analyze the effect of board meetings on the asset quality of banks in Ghana. The research findings indicate a significant positive relationship between asset

quality and board meetings. This suggests that banks with better asset quality tend to hold more frequent and effective board meetings.

The fourth objective of the study was investigate the effect of asset quality on the profitability of banks in Ghana. The study found that there is a strong positive relationship between asset quality and profitability of banks. When a bank maintains a high-quality asset portfolio with fewer non-performing loans, it is more likely to generate higher profits.

5.2 CONCLUSION

The following conclusions are made based on the findings of the study.

A larger board size can bring in more diverse expertise and knowledge from different areas, enabling better decision-making and risk assessment. With a wider range of perspectives, the board is more likely to identify potential risks and take necessary measures to maintain asset quality. Moreover, a larger board size can enhance the bank's governance mechanisms. It allows for more effective monitoring and oversight of management activities, reducing the likelihood of mismanagement or risky behaviour. This, in turn, can contribute to maintaining a higher level of asset quality.

Furthermore, banks with better asset quality may have stricter lending practices and risk management systems in place. These banks are more likely to attract independent directors who have expertise in risk assessment and can contribute to the board's oversight of loan quality. Independent directors are more likely to provide objective judgment and challenge management

decisions. They can bring diverse perspectives, knowledge, and experience to the board, which can help to improve the bank's overall governance and risk management practices.

Again, banks with good asset quality may have a culture that promotes transparency and accountability. This can attract independent directors who value these principles and are more inclined to join the board. Such directors are likely to demand and ensure the availability of accurate and timely information to make sound decisions.

Additionally, banks with a stronger focus on asset quality are likely to prioritize risk management in their decision-making process. Holding regular board meetings allows the bank's management to discuss and review strategies for managing risks associated with loan quality, identifying potential issues, and implementing appropriate measures to mitigate risks. Frequent board meetings enable the bank's management to actively monitor asset quality and make timely decisions to address any emerging issues. This includes evaluating the loan portfolio, reviewing credit policies, setting appropriate risk management guidelines, and making adjustments as necessary.

Also, banks with better asset quality face lower credit risk, as they have fewer loan defaults. This leads to lower provisions for loan losses, reducing expenses and improving profitability. Superior asset quality enhances a bank's reputation and credibility, attracting more depositors and investors. This increased confidence results in a lower cost of funds, creating additional profitability for the bank. Banks with sound asset quality are better equipped to withstand economic downturns and financial crises. By minimizing loan defaults and maintaining a strong capital base, these banks can navigate turbulent times more effectively, thereby preserving profitability.

5.3 RECOMMENDATIONS

The study provided the following recommendations based on the findings of the study.

Firstly, it is crucial for organizations to recognize the importance of a larger board size when it comes to maintaining and improving asset quality. This means that companies should consider expanding their board of directors to include a diverse range of individuals with expertise in different areas of finance and asset management. By doing so, companies can tap into a wider pool of knowledge and experience, which can contribute to better decision-making and ultimately enhance asset quality.

Furthermore, it is important for companies to establish robust monitoring mechanisms to evaluate and assess asset quality continuously. Regular board meetings and reporting systems should be put in place to track and review the performance of assets. This will enable the board to identify any potential issues or areas for improvement and take appropriate actions in a timely manner.

Given the positive impact of board independence on asset quality, it is recommended to enhance the level of independence within the board. This can be achieved by appointing more independent directors who possess relevant expertise and have no conflicts of interest. Independent directors provide a fresh perspective and can contribute to effective risk management and oversight.

In addition to board independence, it is important to emphasize board diversity. By having a diverse board that includes individuals with varied backgrounds, experiences, and perspectives, there is a higher likelihood of addressing and mitigating risks effectively. This can lead to better decision-making processes, improved governance, and ultimately, enhanced asset quality.

By conducting frequent board meetings, the board of directors can stay updated on the overall financial health of the organization, including the quality of its assets. This allows them to actively assess and manage any potential risks or issues that may arise in relation to asset quality.

The research clearly indicates that companies with better asset quality tend to have higher profitability. Therefore, it is crucial for businesses to prioritize maintaining a strong and healthy asset portfolio by effectively managing credit risk, minimizing non-performing assets, and ensuring regular audits and evaluations of asset quality.

To maintain high asset quality, companies must improve their credit assessment and monitoring processes. This includes implementing rigorous credit analysis, conducting regular reviews of borrower profiles, and closely monitoring loan performance to detect early signs of potential asset deterioration.

5.4 RECOMMENDATION FOR FURTHER RESEARCH

There are several potential areas for future research related to the relationship between board characteristics and bank performance. Future studies could add or use other variables of corporate governance such as board diversity, CEO-board dynamics, board expertise and specialization, board compensation and motivation, and board engagement and information flow.

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