THE EVALUATION OF THE AGENCY PROBLEM AND THE CONTROL OF THE CORPORATION IN THE ANKOBRA WEST RURAL BANK IN GHANA

by

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DECLARATION

I hereby declare that this submission is my own work towards the MBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgment has been made in the text.

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ABSTRACT

The study was conducted to assess the agency problem and the control of the business in Ankobra West Rural Bank in the Ellembelle District of the Western Region. The study relied on primary data using structured questionnaires and secondary data from documentary sources in arriving at the conclusions. Two sets of questionnaires were designed for the study; one set was for the shareholders and the board of directors and the other set of questionnaire targeted the management team. The sample size for the study was ninety for the former and four for the latter.

From the study, it was observed that the shareholders, through the board of directors, control the bank. The study also established that there were no institutional shareholders and of the ninety respondents only two were board members. Again, it was disclosed that twelve of the ninety shareholders representing thirteen percent had attained tertiary levels of education. It was ascertained that the bank seeks survival by expansion as their business objective. Nonetheless, the shareholders expected the managers to increase the value of their shares. The study further disclosed that the managers and the staff of the bank could be dismissed on grounds of non-performance. It was established that the potential conflict between the managers and the shareholders could be minimized by strict adherence to the corporate plan of the bank. The study made it clear that dividend was declared annually and the type of dividend in practice was the cash dividend. Loan recovery and competition from sister rural banks, particular that of Awiebo Rural Bank, were some of the main challenges confronting the bank.

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TABLE OF CONTENTS

CHAAPTER TWO: LITERATURE REVIEW

CHAPTER THREE: METHODOLOGY AND ORGANIZATIONAL PROFILE

CHAPTER FOUR: PRESENTATION OF FINDINGS AND ANALYSIS

CHAPTER FIVE: SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS AND ACRONYMS

AGM	:	Annual General Meeting
ARB	:	Association of Rural Banks
CEO	:	Chief Executive Officer
CSR	:	Corporate Social Responsibility
DCD	:	District Co-ordinating Director
FIG	:	Figure

CHAPTER ONE

INTRODUCTION

1.0 Background to the Study

A very striking characteristic of large corporations is that the owners are usually not directly involved in making business decisions, particularly on a day-to-day basis. In large corporations, ownership can be spread over a large number of shareholders. Fact is, this dispersion of ownership arguably means that management effectively controls the firm. The relationship between shareholders and management is called an "agency relationship". Such a relationship, indeed, exists whenever someone referred to as the principal hires another called the agent to represent her interests. The shareholders (owners) are usually not directly involved in making business decisions, particularly on a day-to-day basis as earlier on stated. Instead, the corporation employs managers to represent the owners' interests and make decisions on their behalf. Consequently, in large companies or corporations, the financial manager would be in charge of answering relevant and pertinent questions (Ross et al., 1998, pp.11-14).

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Ethically, the financial manager in a corporation acts in the best interest of the shareholders by taking actions that increase the value of their stock. Experience has it that in all such relationships, there is a possibility of conflict of interest between the principal and the agent. Such a conflict is called the "Agency Problem". There are numerous instances where the interest of management runs counter to that of the shareholders. Clark (1991) indicates that principal-agent relationship exists whenever decision-making authority must be delegated. Corporations are an example of a common principal-agent relationship: a corporation's shareholder (owners) delegate the day-to-day decision-making authority to managers who are hired employees rather than substantial owners.

On the universality of the principal-agent relationships, Zimmerman (1995) observes that they pervade all organizations: profit and non-profit firms, the military and other government units, and churches. Zimmerman reports of a similar agency problem when he notes that when hired to do a task, agents maximize their own utility, which may not maximize the principal's utility. He further indicates that agents' pursuit of their own self-interest instead of the principal's is called principal-agent problem or the agency problem. Agency costs also arise when agents seek larger organizations to manage (empire building) either to increase their job security or to increase their pay (many firms base pay on the number of employees reporting to the manager). The fact that agents maximize their personal utility instead of the principal's is the result of a problem commonly referred to as *goal incongruence*, a phrase that simply means that individual agents have different goals from the principal (Zimmerman, 1995. pp.147-149).

1.1 Statement of the Problem

Ultimately, the interest of shareholders is to see an increase in their share value whilst managers may tend to overemphasize organizational survival to protect their job security. The survival concept otherwise known as the problem of empire building, underpins the practice of granting options as incentives to managers. Bebchuk and Fried (2003) observe that such an incentive will in a way deter managers from undertaking acquisitions that are value-decreasing to shareholders. While such an expansion will reduce the value of their current options, it may raise aggregate future compensation by an even greater amount because a larger firm size can be used to justify higher pay.

Conventionally, and statutorily, managers (agents) are to act in the optimum interest of the shareholders. As to whether management will necessarily act in the best interests of the shareholders or they will pursue their own hidden goals at the expense of the shareholders will be the subject matter of the research topic. Indeed, whether managers will, in fact, act in the best interests of shareholders depends on two factors. The first is how closely management goals are aligned with shareholders goals and the second is how management can be replaced if they do not pursue shareholders goals. While the first question relates to the way managers are compensated, the second issue relates to the control of the firm. There are a number of reasons to think that, even in the largest firms, management does not only have a significant incentive but also an awful fear to act in the interest of shareholders. The research was to find out how the agency problem and control of the corporation had impacted on the bank. The study, moreover, brought to the fore some of the factors militating against the progress of the bank and the strategies that were prescribed to address them.

1.2 Research Questions

The questions below were posed to give direction to the research:

- What incentive packages have been put in place by the owners (shareholders) to ensure that management act in their interest (shareholders)?
- How has the agency problem (conflict of interest between management and shareholders) affected the performance of the bank?
- Are they any avenues or structures that have been instituted to dismiss wayward managers?
- Are they any other factors militating against the bank besides the agency problem?

1.3 Objectives of the Study

1.3.1 General Objective

The general objective is to critically assess the effect of the agency problem on the bank in the district.

1.3.2 Specific Objectives

- To assess the extent of damage to the bank as a result of the agency problem.
- To determine how management is encouraged to operate in the interest of shareholders.
- To identify ways of improving upon the relationship between shareholders and management.
- To evaluate the promptness of the payment of dividends to shareholders.

1.4 Justification of the Study

The agency problem has led to the collapse and takeovers of many corporations and banks and the study confirmed or prove otherwise whether the problem has had its toll on the bank. The fact that Ankobra Rural Bank is one of the two rural banks in the newly-created district and more importantly, only three kilometres from the capital of the new district, reinforces the strategic relevance of the survival of the Ankobra West Rural Bank. The bank services a lot of customers made up of workers such as teachers, nurses, assembly staff and other category of informal workers like farmers, fishermen and traders, and self- employed artisans, among others.

The bank provides employment for some of the youth, extend credit to her customers, offer scholarship facilities to both Junior and Senior High School students who are brilliant but needy. The study, moreover, was a wake-up call to both management and the shareholders, especially the former, to offer the best of services and products to her customers in order to attract more customers and investors to invest in the Bank.

1.5 Scope of the Study

The bank's catchment area stretches from Ankobra south-east on the main Takoradi–Alubo highway to Ala-Bokazo on the south east and extends from Bamiakor on the northeast to Tandah in the northwest of the district. The study covered the demography of respondents; the ownership and management of the bank; the maximization of the shareholders' wealth; the type of rewards or compensation that was offered management so as to induce them to tow the line of the shareholders and finally how to deal with management if they went contrary to the policy directions of the Bank.

1.6 Organization of the study

The study consists of five chapters. The first chapter addresses issues such as the background to the study, statement of the problem, research questions and objectives of the study, relevance and limitations of the study. The second chapter deals with the review of relevant literature whilst chapter three covers the methodology and the organizational profile of the bank. The methodology encompasses the research design, the population and sampling techniques employed the instruments and procedures of data collection and the organizational profile of the bank. Chapter four of the study takes care of the data analysis and discussion of the findings using tables, pie and bar charts. The last chapter of the study which is chapter five entails the summary of findings, conclusions and recommendations.

1.7 Limitations of the Study

A number of challenges made the study difficult to conduct. Gaining access to valuable data from management coupled with the scattered nature of shareholders further compounded the problem of access to relevant information. The vastness of the catchment's area had a negative impact on the finances and also demanded much more time than was normally required to conduct the interviews and administer the questionnaire. Another challenge that was grappled with was the locations of both shareholders and the few board members since some of them advertently concealed their proper residential addresses in order to perpetuate their hidden agenda. The list of shareholders which were hitherto not arranged according to towns and villages was re-arranged to ease identification. In communities that are remote from the coast and who are predominantly farmers, the enumerators went there on Thursdays and also in the evenings. The logic behind the above was that on Thursdays no farming activities are carried on and as a result the shareholders were easily available and the same rational held for the timing. Along the coastal towns namely, Asanta; Kikam, and Esiama, the questionnaires were administered on Tuesdays since on that day the enumerators easily got physical access to most of the shareholders since it is a taboo to engage in any fishing activities on the day. In all the rounds, the assembly members and the unit committee members were actively involved to facilitate the exercise.

CHAPTER TWO

LITERATURE REVIEW

There literature will be reviewed under the following four main thematic areas:

- Ownership and Management
- Maximization of Shareholders' Wealth
- Linking Rewards to Shareholders Wealth Improvement
- Sacking of Managers

2.0 Introduction

Starting a business can be an exciting and rewarding undertaking. It can also be very scary and, at times, overwhelming. Regardless of how one gets started, one will find that his new life purpose will be presiding over matters of operations and administration. As they drive the company forward, the intention of the promoters is to strengthen the company and in effect increase their own wealth or the wealth of absentee owners. Owners of small and emerging business have the daily responsibility of focusing on the most fundamental matters of business.

The pressure of applying the seed money wisely and effectively in a lighting-quick business environment is a big enough challenge without having to learn the finer points of being an administrator. As the company matures, stabilization and making order out of chaos will be followed by the need to create structure that will endure. The business owner or the chief executives' role is to build a sound management team as well as conserve and safeguard available resources. These objectives will be followed by the need to build a sound business strategy and put it in motion (Clark, 1991 p. 5).

2.1 Conceptual framework

The research set to establish in practical terms whether or not the agency problem existed in the bank; whether the problem had impacted on the bank and how management and the shareholders mutually coped with the challenge. The research ascertained who the true owners of the bank were and how they exercised their authority and control over the bank. In this analysis, the main objective of the bank and the ease with or otherwise of achieving this objective was established. The authority for the declaration of dividend and its actualization were discussed. The extent to which the management of the bank exercised influence in determining their salaries; allowances; and other perks such as stock options and forgiven loans were also attended to. The study further addressed the delicate issue of disciplinary actions, including firing of the manager and his staff, and the conditions under which such disciplinary action could be invoked.

2.2 Ownership and Management

2.2.1 Agency relationship

Agency is a legal agreement between two persons, whereby one person is designated as the agent of the other. In this relationship, one party, the agent is authorized to act for and under the control of the other, the principal, in negotiating and making contracts with a third party. The principal must indicate in some manner that the agent is to act for and under the control of the principal. The agent must consent to act on behalf of and subject to the control of the principal. The agency relationship is *fiduciary* in that the person with the duty to act does so in trust for the benefit of the principal. The relationship may or may not arise as a result of an actual contract. When an agency relationship is created, specific obligations, rights, and liabilities arise that relate to the principal, the agent, and the third party (Brown & Sukys 1997, p. 488). According to Ross et al. (1998), agency problems are not unique to corporations only; they exist whenever there is separation of ownership and management. They observe that the separation is not only most pronounced in corporations, but it certainly exists in partnerships and proprietorships as well.

Bill and Pike (2003) similarly indicate that the agency problem arises due to the separation of ownership and control of business or firm. To them, theoretically, the shareholders, being the owners of the firm, control its activities whilst in practice; however, the large modern corporation has a diffuse and fragmented set of shareholders and control often lies in the hands of directors. It is extremely difficult to marshal thousands of shareholders, each with a small stake in the business, to push for a change. Thus, in many firms there is what is called a separation, a divorce of ownership and control.
Bill and Pike (2003) further note that the separation of ownership and control raises worries that the management team may pursue objectives attractive to them, but which are not necessarily beneficial to the shareholders. This is termed "managerialism''. The authors, notwithstanding, provide safety nets for the shareholder by stating that the principals (shareholders) have to find ways of ensuring that their agents (the managers) act in their interests. This

means incurring costs, "agency costs" to monitor the behaviour of managers and secondly, create incentive schemes and control measures for managers to pursue shareholders' wealth maximization. In furtherance of the managers acting in the interests of the shareholders, Bill and Pike (2003) point out that various methods have been used to try to align the actions of senior management with the interests of shareholders that are to achieve "goal congruence".

2.2.2 Control of the corporation

McLaney (2006) asserts that the shareholders are the owners of the business and, as such, both the exercisers of ultimate control and the beneficiaries of profits. It is therefore argued that the shareholders will cause managers to pursue policies that would be expected to result in the maximum possible profit. This analysis is acceptable up to a point, but maximizing profit could easily be sub-optimal to the shareholders. Profit may be able to be increased by expanding the business's scale of operations. If the increase merely results from the raising of additional external finance, it might mean that profit per share could actually decrease, leaving the shareholders worse off (McLaney, 2006, p.19). Brownlee 11 et al. (1990) contradict the position of McLaney when they contend that shareholders do not have free access to the information needed to monitor managers performance, managers have the opportunity to pursue their own interests with little fear that this behavior will be observed by share holders.

Like Mclaney (2006), Fry et al. (2001) contend that the shareholders are obviously the primary owners of the corporation or the firm. They are the ones who underwrite the firm and they are the people and institutions who have risked their monies and support so that the business could operate. They have chosen to invest in the business rather than pursue other opportunities. Surely they deserve to receive a return on their investment for taking such risks. In fact, this notion of a business providing returns to its owners and investors is fundamental to our free enterprise system. Without this focus, there would be no real incentive for anyone to take the risk of investment. Most people agree that a business has a responsibility to its owners and investors to ensure a return on their investment.

Fry et al. (2001) assert further that the real striking point is how much return is proper. Some people argue that the most important (many would say sole) responsibility of a business is to maximize return to owners and investors. On separation of ownership and management, Myers (2003) supports the principle that in large businesses it is a practical necessity. Major corporations may have hundreds of thousands of shareholders and there is no way for all of them to be actively involved in management. Consequently, authority has to be delegated. Myers (2003) similarly notes that the shareholders own the corporation; they however, do not manage it. Instead, they vote to elect a board of directors to manage the business for them. Some of these directors, they claim may be drawn from top management, but others are non-executives directors, who are not employed by the firm. The board of directors represents the shareholders. It appoints top management and is supposed to ensure that managers act in the shareholders' interests. This separation of ownership and management gives corporations permanence so much so that even if managers quit or are dismissed and replaced, the corporation can survive, and today's shareholders can sell all their shares to new investors without disrupting the operations of the business. This concept of the maximization of return to owners and investors ushers one to the discussion on shareholders' wealth maximization.

2.3 Maximization of Shareholders' Wealth

Milton Friedman, an internationally acclaimed economist, (1970) cited in Fry et al., (2001) indeed, opines that it is the social responsibility of business to increase its profits. Therefore, managers should focus their energies on enhancing revenues, reducing expenses, and thereby gaining as much profit as possible. Advocates of the view believe that it is not the job of business to address social issues or problems. They think other institutions, such as government and non-profit social service agencies, should deal with social concerns. This perspective should not be missed since it is technically sound and is backed by some powerful and well respected business and economic thinkers. Others argue that the profit maximization argument is too extreme and fails to recognize what business does and that it should have a broader role of responsibility to other shareholders. Consider, for example, business' responsibility to their communities and to society in general. Advocates note that business exists in society and are part of society, so being socially responsible is the right thing to do.

It is logical for business to assume their role since it is in a better position to address social issues than any other institution in our society. Contributing to the debate on social responsibility, Anita Roddick, founder of the Body Shop in the USA, says, "business" is entering centre stage. It is faster, it is more creative, and it is wealthier than government. However, if it comes with no moral sympathy or honourable code of behavior, God helps us all". Roddick's statement gives credence to the fact that businesses must be socially responsible and in the execution of socially-responsible policies and programmes, the human factor should be paramount. Today most business leaders accept that business does have social responsibilities beyond those to owners and investors. However, there should be no doubt that the first responsibility of a healthy business is to its owners and investors. They deserve a fair return on their investment. The managers of the business must determine how much and how far they will move towards balancing shareholders expectations. Not surprisingly, there is great variation from business to business (Fry et al., 2001).

2.3.1 Business objectives pursued by corporations

Business objectives are varied since what one business seeks to achieve may be different from the other. Resulting from the above, what investments and financing decisions businesses should try to promote is a question central to business finance and one that has attracted considerable discussion as the subject has developed (McLaney, 2006, pp.19-20). Some of the more obvious and popular suggestions available to businesses are profit maximization; maximization of the return on capital employed; survival; long-term stability;

growth of profits and or assets; "satisficing" and finally maximization of shareholder's wealth.

2.3.2 Maximization of profit

Maximization of profit would normally be interpreted as accounting profit. Clearly, increasing profitability through greater efficiency is a desirable goal from the shareholders' point of view. However, maximization of profit is far too broad a definition of what is likely to be beneficial to shareholders. On maximization of the return on capital employed, McLaney indicates that this objective is probably an improvement on profit maximization since it is related to the size of the business. However, as with profit maximization, no account is taken of risk and long term stability.

2.3.3 Survival or empire building

On survival, McLaney (2006) makes the point that most business sees it as a necessary, but insufficient, objective to pursue. Investors would be unlikely to be attracted to become shareholders in a business that has no other long-term ambition than merely to survive. In times of economic recession and other hardship, many businesses will see survival as their short-term objective, but in the longer term they would almost certainly set their sights somewhat higher. The long-term stability objective is similar to survival and is similarly unrealistic in its lack of ambition as a long-term target. Growth of profits and or assets does seem a more realistic goal and appears to reflect the attitude of manager. Growth implies that short term profit will not be pursued at the cost of long-term stability or survival. Growth is not really an enough precise statement of an objective. This is because growth can be achieved merely by raising new finance.

2.3.4 Satisficing

According to McLaney (2006), "satisficing" as a business objective intends to give all participants of business satisfactorily return for their inputs, rather than seek to maximize the return to any one of them. They see the business as a coalition of suppliers of capital, suppliers of managerial skills, suppliers of labour, suppliers of goods and services, and customers. This coalition, McLaney avers, is not seen as a self-contained entity but viewed in a wider societal context. Nevertheless, he concedes that many see objectives that relate only to the welfare of shareholders as unrealistic in recent times.

2.3.5 Shareholders' wealth improvement

In the candid opinion of McLaney (2006, p.21), maximization of shareholders wealth is probably the most credible goal among all the business objectives options discussed earlier on. According to the author, wealth maximization takes account of both return and risk simultaneously. Again, McLaney states that investors value businesses that have higher returns but lesser risks than business with higher returns and at the same time more risky. Wealth maximization also balances short-and long-term benefits in a way that profit-maximizing goals cannot. A wealth maximization objective should cause financial managers to take decisions that balance returns and risk in such a way as to maximize the benefits, through dividends and enhancement of share price to the shareholders.

Despite its credibility, McLaney (2006) states that wealth maximization seems in conflict with the perhaps more credible objective of "satisficing". Wealth maximization seems to imply the pursuit of the interests of only one member of the coalition perhaps at the expense of the others. To the extent that this implication is justified, the shareholders wealth maximization criterion provides a basis for financial decisions that must be balanced against those derived from objectives directed more towards the other members of the coalition. It could, however, be argued that "satisficing" and "shareholder wealth maximization" are not as much in conflict as they might at first appear to be. This is to say that wealth maximization might best be promoted by other members of the coalition receiving satisfactory returns. Maximization of shareholders' wealth may not be a perfect summary of the typical business's financial objective. It does, however, provide a reasonable working basis for financial decision making. What must be true is that businesses cannot continually make decisions that reduce their share-holders' wealth since this would imply that the worth of the business would constantly be diminishing.

Fact is each business has only a finite amount of wealth, no sooner or later it would be forced out of business by the results of such decisions (McLaney, 2006 p. 22). It is worth mentioning that most businesses do not state their objective to be shareholder wealth maximization, though some do. According to McLaney, nearly all larger UK businesses pay sizeable bonuses to their directors. These bonuses are almost always linked closely to returns to shareholders. On top of this, most large businesses grant substantial share options to directors. So while most businesses do not state shareholder wealth maximization as their goal, their actions, including the incentives given to senior managers, strongly imply that the economic welfare of shareholders is a major issue. Myers (2003) similarly notes that the fundamental financial objective of the firm is to maximize the value of the cash invested in the firm by the shareholders or stockholders. Myers adds that shareholders are happy to contribute cash only if decisions made generate at least adequate returns. "Adequate" means returns at least equal to the returns available to investors outside the firm in financial markets. If a business' or firm's project consistently generate inadequate returns, shareholders will want their money back. The most widely accepted objective of the firm, Moyer et al. (2001) note, is to maximize the value of the firm for its owners; that is, to maximize shareholder wealth. Shareholders' wealth is represented by the market price of a firm's common stock. The shareholder wealth maximization goal states that management should seek to maximize the present value of the expected future returns to the owners (that is shareholders) of the firm. These returns can take the form of periodic dividend payment or proceeds from the sale of the common stock.

2.3.6 Social responsibility concerns

Most firms now recognize the importance of the interests of all their constituent groups or stakeholders; customers, employees, suppliers, and the communities in which they operate and not just the interests of stockholders and this is referred to as social responsibility concerns. A wide diversity of opinion exists as to what corporate social responsibility actually entails. The concept is somehow subjective and is neither perceived nor applied uniformly by all firms. As yet, no satisfactory mechanism has been suggested that specifies how these social responsibility commitments can be balanced with the interests of the owners of the firm. However, in most instances, a manager who takes an appropriate long-term perspective in decision making, rather than focusing only on short-term accounting profits, will recognize responsibility to all of a firm's constituencies and will help lead the company to all decisions that are of value for shareholders.

2.3.7 Divergent objective

Another objective is the divergent objective which ensured that the goal of shareholder wealth maximization specifies how financial decisions should be made. In practice, however, not all management decisions are consistent with this objective. In other words, there often may be a divergence between the shareholder wealth maximization goal and the actual goals pursued by management. The primary reason for this divergence has been attributed to separation of ownership and control (management) in corporations. Separation of ownership and control has permitted managers to pursue goals more consistent with their own self-interests as long as they satisfy shareholders sufficiently to maintain control of the corporation. Instead of seeking to maximize some objective (such as shareholder wealth), managers "satifice" or seek acceptable levels of performance, while maximizing their own welfare.

2.3.8 Maximization of managers' welfare

Maximization of their own personal welfare (or utility) may lead managers to be concerned with long-run survival (job security). The concern for long-run survival may lead management to minimize (or limit) the amount of risk incurred by the firm, since unfavorable outcomes can lead to their dismissal or possible bankruptcy for the firm. Likewise, the desire for job security is cited as one reason why management often opposes takeover offers (mergers) by other companies (Moyer et al. 2001).

2.3.9 Dividend declaration

According to Libby et al. (1998), one of the most important rights associated with the ownership of common stock is the right to receive dividends. Dividend yields for most stock are quite low, often in the range of 1-2 percent. One may wonder why someone would invest in a stock that pays less than 1 percent when bonds and other investments offer much higher yields. One remembers that dividends are only part of the return available to stockholders. The other component of return is price appreciation. Most investors purchase common stock with the expectation that stock price will appreciate. Block et al. (1992) share the same concern that an investor buys shares in anticipation of receiving a return in two forms: dividend distributions and share price appreciation. They additionally introduced the concept of stock dividend which Libby et al. (1998) were silent on. Block et al. (1992) indicate that some firms issue stock dividends instead of cash dividends in order to conserve cash and the shares are issued on pro rata basis.

On dividend policy, Maness (1998) writes that corporate management must decide what to do with their retained earnings, whether to pay them out as dividends or reinvest them in future projects. Some firms make a decision to repurchase their shares in the market place rather than increase dividends. The authors further observe that a successful owner of a small business must continually decide what to do with the profit that his or her firm has generated. Similarly a corporation and its stockholders must face exactly the same type of decision. Should funds associated with profits be retained in the business, or paid out to stockholders in the form of dividends? Two types of dividends are identified by Maness as cash dividend and stock dividend. Stock dividend represents a distribution of additional shares to common stockholders. The typical size of such dividends is in the 10 percent range, so that a stockholder with 10 shares might receive one new share in the form of a stock dividend. The basis of distribution of the stock dividends as asserted by Maness (1998) confirms that of Block et al. The former, nonetheless, posits that the stock dividend does not affect shareholder wealth and affect neither the profitability nor risk of the firm's asset. Stock dividends, Maness contends, may camouflage the inability of the corporation to pay cash dividends and to cover up the ineffectiveness of management in generating cash flow. Resultantly, well-informed investors are likely to react very negatively to the reward of stock dividends. This leaves us with the question of what incentives and compensation to grant managers so that they can enhance shareholders wealth enrichment. It is to this question that I will now turn.

2.4 Linking Rewards to Shareholders' Wealth Improvement

Jensen and Meckling, (1976) argue that corporate managers who have little or no ownership interest in the corporation that employs them have more incentive to consume certain non-pecuniary benefits than they would if they were substantial owners of the firm. These non-pecuniary benefits include non salary benefits like limousines, liberal expense accounts and other executive ego-boosters. Stated differently, agency theory suggests that owners will work harder to maximize the value of the company than employees will. The Jensen-Meckling discussion of the agency theory assumes that security markets efficiently process information about the principal-agent conflict that exists within many corporations.

Research by Kim, Lee; and Francis (KLF) suggest that security markets do not process this information efficiently, and as a result, owner-managed firms or corporations are better investments than employee-managed firms. Security markets tend to ignore valuable public information about agency costs. It must be stated, as a matter of emphasis, that the shareholders control the business in theory; in practice the managers control it on a day-to-day basis. The ways in which managers might seek to maximize their welfare include:

Paying themselves good levels of salary and "perks", but not too much to alert shareholders to whom, by law, directors' salaries must be disclosed. Providing themselves with larger empires, through mergers and internal expansion, thus increasing their opportunities for promotion and social status; and reducing risk through diversification may not benefit the shareholders, but may improve the managers' security (McLaney, 2006 p. 24).

2.4.1 Executive compensation

According to Bebchuk & Fried (2003), executive compensation has long attracted a great deal of attention from financial economists. They, indeed, observe that the increase in academic papers on the subject of Chief Executive Officers compensation during the 1990s in the US seems to have outpaced even the remarkable increase in CEO pay itself during this period. Much research has focused on how executive compensation schemes can help alleviate the agency problem in publicly traded companies. The focus of the two authors is on publicly traded companies without a controlling shareholder. When ownership and management are separated in this way, managers might have substantial power. This recognition goes back to Berle and Means (1932, p.139) who observed that top corporate executive, while in office have almost complete discretion in management. Managers may use their discretion to benefit themselves personally in a variety of ways (Shleifer & Vishny, 1997). Managers, for example, may engage in empire building and may fail to distribute excess cash when the firm does not have profitable investment opportunities. Managers also may entrench themselves in their positions, making it difficult to oust them when they perform poorly (Shleifer & Vishny, 1989).

2.4.2 Directors role in executive compensation

Directors generally wish to be re-appointed to the board and also given an attractive salary. Besides an attractive salary, a directorship is also likely to provide prestige and valuable business and social connections. Chief Executive Officers (CEOs) play an important role in re-nominating director to the board. Thus, directors usually have an incentive to favour the CEO. In a world in which shareholders select individual directors, director might have an incentive to develop reputations as serving the interest of shareholders.

Because the CEOs influence over the board gives her significant influence over the nomination process as observed by (Bebchuk & Fried 2003), directors have an incentive to "go along" with the CEO's pay arrangement, a matter dear to the CEO's heart, at least as long as the compensation package remains within the range of what can plausibly be defended and justified. Yet another reason which favours the CEO is that the CEO can affect director's compensation and perks (Bebchuk & Fried, 2003).

Baker, Jensen & Murphy (1988) similarly argue that a director typically has only nomination equity interest in the firm. They state further that even a director who did not place much value on a board seat would still have little personal motivation to fight the CEO and her friend on compensation matters. However, it is widely believed that the transparency and saliency of disclosure can have significant effect on CEO compensation. Again, they observe emphatically that the directors usually lack easy access to independent information and advice on compensation practices necessary to effectively challenge the CEO's pay. The upshot of the above discussion from the two groups of discussants (Bebchuk & Fried, (2003); and Baker, Jensen & Murphy, (1988) in my assessment is that the decision of the CEO, or the manager as they case may be, is supreme on grounds of compensation issues. Access to information highlighted by Baker et al. (1988) further compounds the challenge of bringing CEOs under check on issues of compensation.

Related to the above discussion is the potential influence of the CEO even to the effect that would-be CEOs wield power. Directors negotiating with an outside CEO candidate know that after the candidate becomes CEO, he/she will have influence over their re-nomination to the board and over their compensation and perks. The directors will also wish to have good personal and working relationships with the person who is expected to become the firm's leader and a fellow board member. Finally, directors limited time forces them to rely on information shaped and presented by the company's human resources staff and compensation consultants, all of whom have incentives to please the incoming CEO. The above reasons suggest that executives have substantial influence over their own pay. In addition, same reasons suggest that the greater the managers' power, the greater their ability to extract rents. There are limits to what directors will accept and what markets will permit, but these constraints do not prevent managers from obtaining arrangements that are substantially more favourable than those they could obtain by bargaining at arm's length (Bebchuk & Fried, 2003) by outsiders. Bebchuk & Fried, (2003) contend that the potential value of the outrage might cause embarrassment or reputational harm to directors and managers and it might reduce shareholders' willingness to support incumbents in proxy contests or takeover bids. The more outrage a compensation arrangement is expected to generate, the more reluctant directors will be to approve the arrangement and the more hesitant managers will be to propose it in the first instance.

2.4.3 Conditions favourable for higher executive compensation

Executive compensation is higher when the board is relatively weak or ineffectual vis-à-vis the CEO. Whilst Bebchuk & Fried, (2003) enumerate the factors underling the relatively more power enjoyed by managers, Core, Holthausen & Larcker (1999) opinionate that CEO compensation is higher under the following conditions. When the board is large, which makes it more difficult for directors to organize in opposition to the CEO; when more of the outside directors have been appointed by the CEO, which cause them to feel a sense of gratitude or obligation to the CEO, and when outside directors serve on three or more boards, and thus are more likely to be distracted. The presence of a large outside shareholder is likely to result in closer monitoring (Shleifer and Vishny, 1986), and it can be expected to reduce top managers' influence over their compensation.

A larger concentration of institutional shareholders might result in greater monitoring and scrutiny of the CEO and the board. Bebchuk & Fried (2003) document that the pay will be higher and/or less sensitive to performance in firms in which managers would tend to have more power when the board is relatively weak or ineffectual; there is fewer institutional shareholder or managers are protected by anti-take-over arrangements. Examining CEO's pay in almost 2000 firms in the USA during the period 1991-1997, Hartzell & Starks (2002) observe that the more concentrated is institutional ownership, the lower is executive compensation. They also find that a larger institutional presence result in performance-sensitive compensation. United States public companies typically employ outside consultants to provide input into the executive compensation process (Bizjack, Lemmon and Naveen, 2000). Though compensation consultants might play a useful role, they also can help in camouflaging rents. Providing advice that hurts the CEO,s pocketbook is hardly a way to enhance the consultant's chances of being hired in the future by this firm or, indeed, by any other firms.

2.4.4 Stealth compensation

On stealth compensation, Bebckuk & Fried, (2003), observe that firms use pay practices that make less transparent the total amount of executive compensation (otherwise referred to as camouflage benefits) and the extent to which compensation is decoupled from managers' own performance. Another practice with camouflage benefits was the use of executive loans. While the Sarbanes-Oxley Act of 2002 in the U.S. now prohibits such loans prior to the Acts adoption, more than 75 percent of the 1500 largest U.S. firms lent money to executives (King, 2002). Loans, indeed, are useful for reducing the salience of manager's compensation.

Yet another manner in which loans provide camouflage is through the practice of loan forgiveness. A firm that gives an executive a loan to buy a large amount of shares would often not demand full repayment of the loan if the shares value fall below the amount due on the loan. As a result, Bebchuk and Fried (2003), argue that the arrangement is similar to granting the executive an option to buy shares at a price equal to the amount owed on the loan. Indeed, if the stock price fell, the loan will be forgiven at the time that the executive leaves the company when any resulting outrage is likely to have little impact on the executive personally. In many cases, as observed by Bebchuk & Fried (2003), boards give departing CEOs payment and benefits that are gratuitous-not required under the terms of the CEOs compensation contract. Such gratuitous goodbye payments are common even when CEOs performs so poorly that the board feels compelled to replace them. Compensation contracts usually provide executives with generous severance arrangements with insurance against being fired due to poor performance.

The board has the authority to fire the CEO and pay the CEO her contractual severance benefits. The making of such gratuitous payments, however is quite consistent with the existence of managerial influence over the board. Owing to their relationship with CEO, some directors might be unwilling to replace the CEO unless he/she is treated very generously. Other directors might be willing to replace the CEO in any event, but prefer to accompany the move with a goodbye payment to reduce the discomfort they feel firing the CEO or make the difficult separation process more pleasant and less contentious. In all these cases, directors' willingness to make gratuitous payments to the (poorly performing) CEO results from the CEO's relationship with the directors. Bebchuk & Fried (2003) emphasize their strong support for the concept of equity-based compensation which, if well disposed, they believe can provide managers with very desirable incentives. Regarding the costs imposed on shareholders by managers' influence over their own pay, Bebchuk & Fried (2003), note that there is the excess pay managers receive as a result of their power: the difference between what managers' influence enables them to obtain and what they would receive under an arm's length arrangement. Further, and perhaps, more importantly, managers' ability to influence their pay leads to compensation arrangements that generate worse incentives than those that arm' length contracts would provide.

2.5 Sackings

Though many top executives earn princely salaries, occupy luxurious offices and wield enormous power within the organizations, they are mortal and capable of making a mistake or a poor decision. Further, errors made by business managers can harm those who invest in their firms. Forecasting management errors is difficult work that may not be worth the effort and, as a result, imparts a needlessly skeptical outlook (Clark, 1991). As to whether shareholders can dismiss managers, Bill & Pike (2003) note that the threat of being sacked coupled with the accompanying humiliation and financial loss may encourage managers not to diverge too far from the shareholders' wealth path. Ross et al. (1998) shares the same concern that shareholders can dismiss managers, however, both school of thoughts concede that the dismissals method is seldom applied as it is often difficult practically to implement due to difficulties of making a coordinated shareholder effort.

It must be averred that there is a considerable range of legislation and other regulatory pressures designed to ensure that directors act in shareholders' interest. Within these regulations, for example, the board of directors is not to be dominated by a single individual acting as both the chairman and chief executive. Also independently-minded non-executives directors should have more power to represent shareholder interests; in particular, they should predominate in decisions connected with directors' remuneration and auditing of firm's accounts (www.cbdd.wsu.edu-07-o4-o8). The accounting profession, the stock exchange, the regulating agencies and the investing public are continuously conducting a battle to encourage or force firms to release more accurate, timely and detailed information concerning their operations. An improved quality of corporate accounts, annual reports and the availability of other forms of information flowing to investors and analysts such as company briefings and press announcements help to monitor firms, and identify any wealth-destroying actions by wayward managers.

On the issue of dismissal of agents, Zimmerman, like Bill and Pike; and Clark, opines that most supervisors find it personally unpleasant to discipline and dismiss poorly performing subordinates. He adds another dimension to the discussion when he observes that instead of taking these unpopular decisions, supervisors allow underperforming subordinates to remain in their positions, which reduces the value of returns that do not benefit the principal to the same degree. Such inaction on the part of supervisors, Zimmerman contends, gives rise to principal-agent problems. Glueck et al. (1988) assert that the ultimate authority in business is that of the board of directors. Boards are held responsible to the stockholders for the following duties: Ensuring the continuity of management (replacing or retiring ineffective managers); protecting the use of stockholders' resources; ensuring that managers take prudent action regarding corporate objectives; approving major financial and operational decisions of the managers; representing the company with other organizations and bodies in society; maintaining, revising and enforcing the corporate charter and by laws.

The board is legally mandated to control the organization and be centrally concerned with maintaining operations and effectiveness. It is often seen as the representative of the owners, so knowledge of the organization's operations, business acumen, and industry perspective are the prerequisites for membership. The greatest power that most boards (and stockholders) have in order to influence strategy rests in their ability to remove a CEO and appoint a new one (Glueck et al., 1988 pp.49-51). Brownlee 11 et al. (1990) in the same vein contend that the power of shareholders to appoint and dismiss directors should provide them with protection against management acting in a way that is detrimental to their interests. However, the effective control that shareholders can exert over management is minimal because of factors such as the inability of shareholders to observe undesirable practices by management; the costs to shareholders of forming coalition to depose management, and the uncertainty as to whether new management would perform any better. Therefore, there is the possibility of management pursuing objectives which are more in its own interests than in the interest of shareholders. The authors further recognize that though the shareholders have the ultimate power to replace management, this power is rarely exercised.

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 METHODOLOGY

3.1 Introduction

In conducting the research, use was made of both primary and secondary data. A step by step approach was used in designing the investigation. As a first step, the research topic; the sample size and the method of sampling were discussed with the management of the bank before they were chosen. Data collection technique namely questionnaire was also elaborated upon in the chapter.

3.2 Research Design

The interview method was used to elicit the required responses from the sample of interviewees since the rate of illiteracy is very high among the respondents. The interview was structured and conducted on individual basis. Two sets of questionnaires were drafted; one set was for the shareholders and board members and the other set was for the management team. The research design entailed collecting data from a sample of two groups of respondents comprising ninety shareholders and four management team through the administration of two different sets of questionnaires. The choice of the design was deemed the most appropriate judging from the objectives and research questions of the study. The survey was carried out in some of the major towns namely Esiama where the bank is located; Nkroful, the district capital; Kangbunli, Kikam, Teleku-Bokazo and Asanta.

3.3 Population

The target population for the research was all shareholders in general and the district in particular. There are about 900 shareholders who, together with the four management staff of the bank, almost invariably reside in the district. However, most of the board members do not reside in the district.

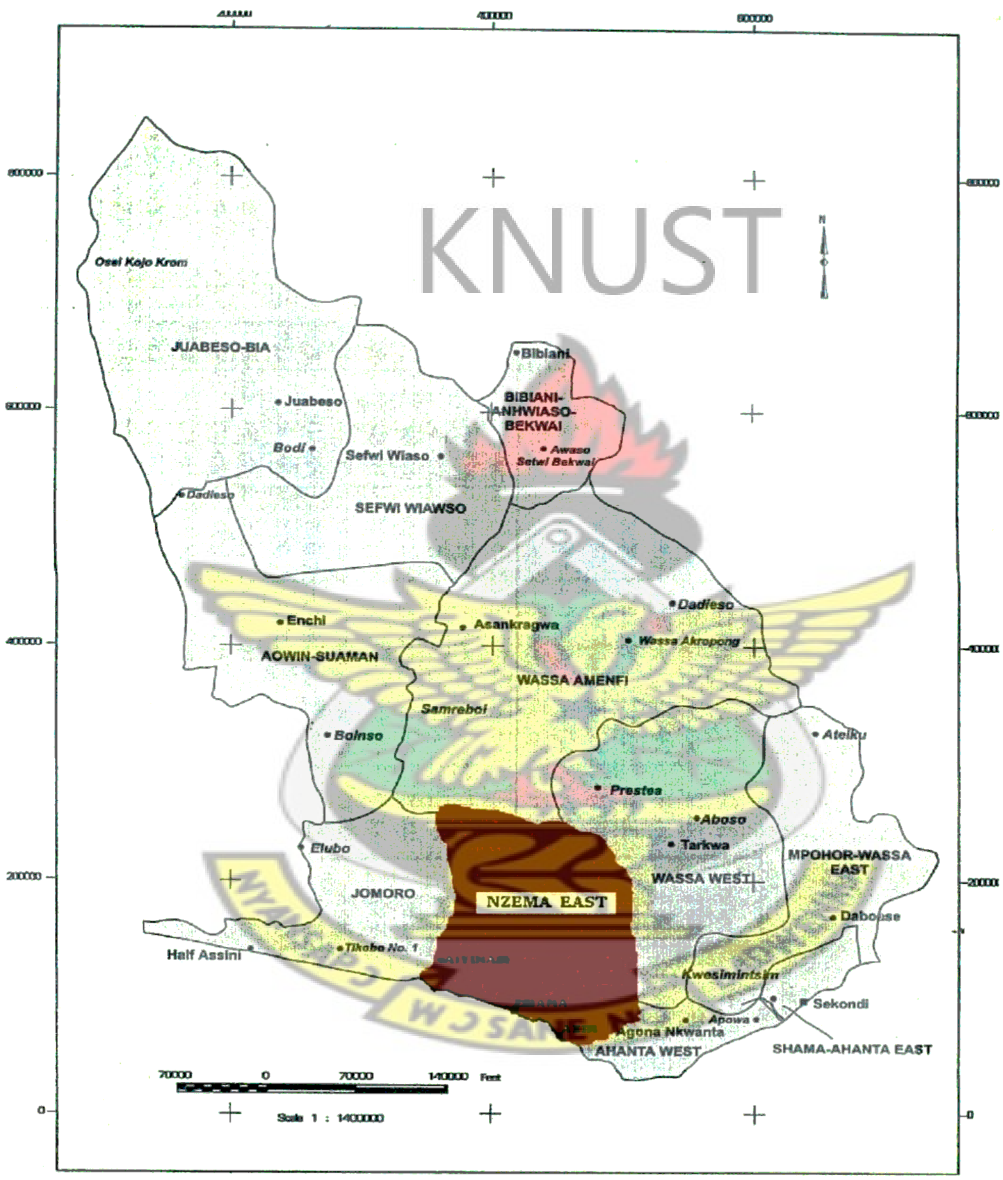

Figure 1: Map of the Western Region showing the Study Area

Source: Ghana Statistical Service, 2002 Population & Housing Census 2000.

It must be stated that the newly-created Ellembelle District was carved out from the Nzema East District and the map is not available as my interaction with the District Co-ordinating Director (DCD) at the district capital, Nkroful, disclosed. The DCD explained that the legislative instrument establishing the new district has not been issued out and it was the legislative instrument that would spell out and also delineate the boundaries with Nzema East (Fig. 1).

3.4 Sample Size

The sample size was ninety and was representative of the shareholders' population of 900 and four for the management staff. Simple random sampling technique was used in the collection of the primary data for the ninety shareholders so that every case or member of the population could have equal chance of being selected. Purposive sampling was also used for the four management team, and not the 'ordinary staff', since their responses best enabled me to answer the research questions and moreover met the objectives of the study. Shareholders in towns and villages such as Nkroful, Esiama, Teleku-Bokazo, Asanta, Kikam and Kangbunli were interviewed at random.

3.5 Data Collection Instrument

Draft questionnaires were drawn up and were subjected to the scrutiny of my supervisor after colleagues had exhaustively gone through and made relevant corrections. Four enumerators were engaged and were briefed before they went to the field to administer the questionnaires. Due to the higher response rate associated with interviewer-administered questionnaires, both self-administered and interviewer-administered questionnaires were applied so that both the literate and the illiterates could be duly catered for.

3.6 Sampling Technique

In the collection of the primary data, simple random sampling technique was used so that every member of the population had equal chance of being selected. Shareholders in town and villages mentioned earlier on were interviewed at random. Since all the shareholders did not reside in one town, the list of all the members or cases in the population otherwise referred to as the sampling frame (complete membership list of the shareholders) determined the towns (Esiama and Kangbunli) which had the greatest concentration.

3.7 Fieldwork

Four field enumerators were recruited and briefed to dispense the questionnaires and the fieldwork was executed from 3rd June–17th June 2009 with the assistance of the Assembly members and the opinion leaders in the various towns and villages.

3.8 Data Analyses

Two sets of questionnaires were administered and analysed: one set was for the shareholders and the board members and the other set was for the four-member management team. Dillman (2000) distinguishes between three types of data variables that can be collected through questionnaires: opinion, behavior and attribute. Though time consuming, the data was analysed by hand (Saunders et al., 2007 p.407) and was based on five areas: demography of respondents; ownership and management; maximization of shareholders' wealth; the linkage between rewards and shareholders' wealth improvement and the dismissal of managers. In the above analysis, use was made of the three types of data variable that can be collected through questionnaires as posited by Dillman (2000). Opinion variables record how respondents feel about something or what they think or believe is true or false. In contrast, data on behaviours and attributes record what respondents do and are. When recording what respondents do, you are recording their behaviour. Behavioural variables contain data on what people (or their organizations) did in the past, do now or will do in the future. By contrast, attribute variables contain data about the respondents' characteristics. Attributes are best thought of as things a respondent possesses, rather than things a respondent does. Attributes include characteristics such as age, gender, marital status, education, occupation and income (Dillman 2000). On attributes, the age, educational qualification, relationship with the bank and the number of years one has been a shareholder/board member/member of management were considered.

The behavioural variables dealt with issues such as what the bank did in the past, does now and will do in the future; what business objective the bank sought to pursue in the past, pursue now and will pursue in the future and the type of business objective the shareholders expect management to follow in the past, to follow now and to follow in the future. Others were the long-term objective of the bank, the exercisers of control, the mode of nomination and election of directors, the initiation and distribution of dividends, the initiation of disciplinary action against the management staff in the past, who initiates such action now and who will do so in the future. The final type of variable sought to record how respondents felt about what they thought or believed was true or false about the compensation of managers and other management staff, whether or not in the opinion of the respondents the bank had chalked reasonable success, whether management staff could be sacked or not, whether dividends were declared and whether the dividends declared met the expectation of the shareholders or not and whether the managers acted in the best interest of the shareholders and whether shareholders met the aspirations of the managers. Results from the survey were computed in figures, percentages, bar charts, and pie charts which are all forms of data analysis (en Wikipedia.org./wiki/Data analysis).

3.9 Problems Encountered

A serious problem that was grappled with was how to trace the exact locations of the shareholders in their various towns and villages even with the assistance of the Assemblymen and other opinion leaders such as the Unit Committee members. It was evident that a reasonable number of the shareholders had passed away and their relations, be they their next-of-kins, children or wives or husbands did not know that the deceased had shares in the bank. Related to the above problem, was that the official names that were recorded by the Bank were different from the local names that they are associated with. A major challenge was the unwillingness of some of the shareholders to get themselves in readiness for the interview. Related to the above were the time and financial constraints. The scattered nature of the shareholders could not be left unmentioned. Mention must also be made of the unwillingness of some of the shareholders and management to disclose certain vital information for fear of disclosing classified information.

3.1.0 Organizational Profile

The agitation for the establishment of a special bank to cater for the banking needs of rural dwellers in Ghana culminated in the establishment of rural banks in the country. The idea was concretized with the establishment of the first rural bank at Nyakrom in the Central Region on 5th July 1976 under the chairmanship of the late Dr Amon Nikoi. Rural banking therefore started in the country through the pioneering work of Dr Amon Nikoi (of blessed memory), the then Governor of the bank of Ghana. Since then, there has been a tremendous growth in the number of rural banks in the country. The latest to be established are Buwuuloso One Stop Rural Bank at Damongo in the Northern Region and Gbi Rural Bank at Hohoe in the Volta Region.

The rural banking concept gained currency rapidly and led to the springing up of many rural banks. The establishment of the rural banks was derived from the conviction that Ghana has a large rural sector where an estimated 60% of the population lives. The large rural sector is heavily dependent on agriculture which is the dominant economic activity providing employment for about 90% of rural population as providers of financial services to ensure growth in a predominantly agro-based economy cannot therefore be over emphasized (Excerpts of an address by Mr. Eric Osei-Bonsu, Managing Director of ARB Apex Bank Monday, April 21, 2008 B & FT). Ankobra West Rural Bank (formerly Esiama Rural Bank) was established at Esiama in the Ellembelle District in 1977 as the fourth rural bank among the first set of rural banks in Ghana. It was authorized to be doing banking business by the Banking Act 1970, Act 339 and was licensed to do the business of banking on the 10th day of the month of June, 1977. The Bank started with an initial share capital of 1.3 m (GH¢ 130) which has risen to 119m as at 31st December, 2007 from a total number of 980659 ordinary shares. The Bank's ordinary authorized shares are now 2 million shares of no par value as at 31st Dec, 2007.

In the course of operation, between 1981 and 1983, three mobilization centres /agencies were opened at (1) Kangbunli to serve the teeming customers who are mostly coconut and rice farmers at the south western part of the district; (2) lower Axim, to cater for workers of Nzema East, (3) Dominase to serve the cocoa farmers and other workers along the upstream of the River Ankobra. The bank, however, went into distress in 1992 and was asked by the Bank of Ghana to close its doors to the public and only maintained limited services to salary workers pending the infusion of fresh capital into the bank. In June 2000, the Bank of Ghana re-instated the bank and has since permitted it to offer full banking services to the public. The vision of the bank is to re-capture its leadership role in the Rural Banking System in the Western Region and the country at large. The bank is under the management of a seven member board of directors; four member management team and eight other staff members.

CHAPTER FOUR

PRESENTATION OF FINDINGS AND ANALYSIS

This chapter presents the results, analyses and discussions of the field survey that was conducted. Two sets of questionnaires, one for the shareholders and the other for the management, were involved and the former was the first to be analysed. The discussion was carried out under the following headings:

- Attributes of shareholders
- Behaviour of shareholders
- Opinion of shareholders

4.0 Analyses of the Shareholders/Board of Directors

4.0.1 Demographic data of respondents (shareholders/board members)

The attributes include characteristics such as age, educational background, relationship with the bank and the number of years that shareholders have associated with the bank. The data had been represented in tables, pie and bar charts. The study involved a sample of 90 shareholders who were between the ages of 20 and 50 above. Of the 90 respondents, sixty five fell in the 51 and above age bracket; twenty one fell in the 41-50 brackets while three and one fell within the 31-40 and 20-30 brackets respectively. In the ascertainment of the relationship of the 90 respondents with the bank, it was revealed that 88 are shareholders and two of them are board members. The study made it clear that there were no institutional shareholders and as posited by Bebchuk & Fried (2003), one of the ways that managers tend to have more power is when there are fewer institutional shareholders. The absence of it, informs one of the potential power the manager wields. The study also disclosed that 87 of the respondents have been shareholders more than five years; two had been shareholders for more than four years and only one had been a shareholder for an average of three years. The personal information demonstrates that not much has been done to attract new shareholders to the bank. Regarding the educational background of the 90 shareholders, twenty seven had been educated up to SSS/O'L/A'L status; twenty six of them had not received any formal education; twenty four had been educated to MSLC/JSS levels; twelve had obtained tertiary qualifications in the form of university degrees, recognized diplomas and professional certificates and one did not respond. It can be concluded that majority of the shareholders have low levels of educational qualifications.

4.0.2 Business Objective/Goal

Table 1: Business objective sought by the Bank

Business Objective	Frequency	Percentage
Profit maximization	23	25.6
Satisfactory returns for all participants	7	7.8
Survival of the bank by expansion	52	57.8
Maximization of shareholders' wealth	8	8.8
Total	90	100.0

Source: Field survey 2009

As regards the type of business objective sought by the bank as depicted by Table 1, it was ascertained that 52 of the shareholders did indicate the survival of the bank by expansion; twenty three of the respondents stated profit maximization; eight stated maximization of shareholders' wealth and seven of them said satisfactory returns for all the participants. The result from the study not only contradicts what Friedman (1970) cited in Fry et al., (2001) opines, but also what Moyer et al. (2001); Myers (2003) and McLaney (2006) observe that the most widely accepted business objective and the most credible goal of the firm is the maximization of shareholders' wealth. In the ascertainment of the goal that shareholders expect the managers to follow as portrayed by Table 2, it became evident that 57 of the respondents representing 63.4% supported the view to increase the value of shareholders shares or wealth; eighteen supported the view to derive maximum profits; eleven supported the claim to ensure equal returns for all shareholders whilst four backed the view to break even. The outcome affirms the observation by Fry et al. (2001) that the shareholders are the ones who underwrite the firm and they are the people or institutions who have risked their monies and support so that the business could operate. They have chosen to invest in the business rather than pursue other opportunities and therefore deserve to receive a return on their investment for taking such risks. Fry et al. (2001) observe that without the focus on returns to its owners and investors, there would be no real incentive for anyone to take the risk of investment.

Table 2: Goal shareholders expect managers to pursue

Response	Frequency	Percentage
To increase the value of shareholders wealth	57	63.4
To ensure equal returns for all stakeholders	11	12.2
To break even: able to pay her debts	4	4. 4
To derive maximum profit	18	20.0
Total	90	100.0

Source: Field Survey 2009

Again, the outcome affirms what Myers (2003) contends that shareholders are happy to contribute cash only if decisions made generate at least adequate returns on their investments. Regarding the long-term ambition of the bank, it was disclosed from Table 3 below that 66 of the shareholders opted for the growth of profits and or assets thus giving credence to what McLaney (2006) observes. In comparing long-term stability objective with the growth of profits and or assets, McLaney (2006) remarks that the growth of profits and or assets as an objective seems more realistic goal and reflect the attitude of managers.

Table 3: Long-term ambition/objective of the bank

Response	Frequency	Percentage
Growth of the bank	66	73.3
Survival of the bank	19	21.1
Building reserves	1	1.1
Ploughing back of the profit into the business	3	3.4
No response	1	1.1
Total	90	100.0

Source: Field Survey 2009

McLaney (2006), indeed, concedes that growth of profits and or assets is really not an enough precise statement of an objective since growth can be achieved merely by raising new finance. Nineteen of the respondents opted for the survival of the bank; three supported the ploughing back of profits into the bank and only one supported the building of reserves and another one did not see the relevance of it. On the control of the bank, the outcome from the study disclosed that the shareholders through the directors control the bank as of the 90 respondents 48 supported them; thirty supported the management of the bank whilst eight claimed it was the customers and four claimed it was the creditors. The study in one vein supported the assertion by Gluek et al. (1988) that the board is legally mandated to control the organization and be centrally concerned with maintaining operations and effectiveness. The study in another vein supported McLaney's view that the shareholders are the owners of the business and both the exercisers of ultimate control and beneficiaries of profits

4.0.3 Determination of Salaries and Allowances of Managers

Table 4: The authority that determines the salary and allowances of the managers and staff

Authority that decides	Frequency	Percentage
Association of Rural Banks	41	45.6
Shareholders	32	35.6
Compensation consultant	1	1.1
Creditors	1	1.1
Non response	15	16.6
Total	90	100.0

Source: Field survey 2009

Unlike the United States of America where public companies typically employ outside consultants to provide inputs into executive compensation process as contended by Bizjack, Lemmon & Naveen, (2000), the contention is not upheld by the bank as illustrated by the outcome from the study. Forty one of the shareholders indicated that the salaries and allowances of the manager and staff are determined by the Association of Rural Banks; thirty two said the shareholders determined the salary and allowances while one each said compensation consultants and creditors respectively. It must be stated that 15 of the respondents were uncommitted. It was observed from the study that the bank does not grant loans to the executive of the bank as camouflage benefit as 41 of the shareholders stated that the facility did not apply to their situation, twenty six supported the claim that the bank grant loans to the executives, twenty did not support the claim and three of them did not respond at all. This revelation is at variance with the contention of Bebchuk & Fried (2003) that firms use pay practices that make less transparent the total amount of executive compensation. According to Bebchuk & Fried (2003), another practice with camouflage benefits was the use of executive loans and loans forgiveness, both of which are not prevalent in the bank.

On the question as to the average percentage of the bank's profits that is given to manager as compensation, twenty six of the respondents stated 5-10 percent; three stated 11-20 percent and 52 indicated that their choice was not stated, thus *not specify* while the non-response was nine.

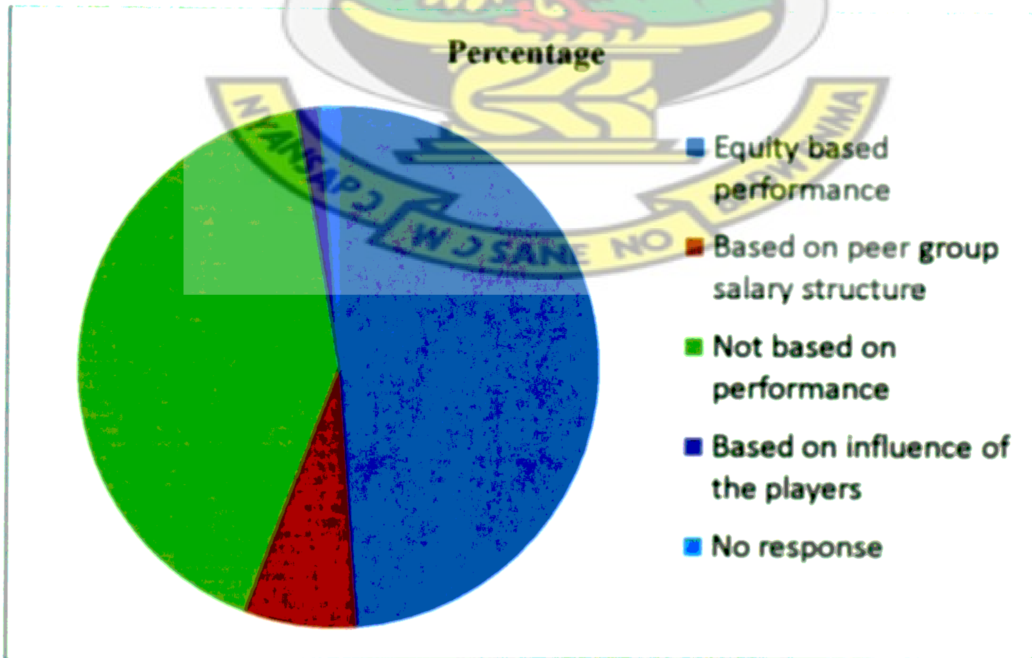

Figure 2: Type of compensation the bank embarks

Source: Field Survey 2009

As to the type of compensation the bank embarks on, seventy of the respondents supported the view that it was equity-based, that is, managerial performance; ten supported the view that it was based on peer group salary structure; whilst six stated it was not based on performance and two said it was based on the influence of the players respectively. Two of them remained uncommitted. The outcome from the study, as shown by Fig. 2 in page 45, affirms the strong support of Bebchuk & Fried (2003) for the concept of equity-based compensation, which they believe, can provide managers with very desirable incentives if well disposed. The outcome, moreover, is in consonance with the principles of natural justice that people should be paid based on their performance and not where they happen to work.

On the subject of whether or not the declaration of dividends is done every year, it was proven that 83 replied in the affirmative while only seven replied to the contrary. Additionally, 88 of the shareholders specified that the dividends have been consistently declared since year 2005-2007. In the ascertainment of the form of dividend, it was revealed that cash dividend was the more predominant one as 54 of the respondents opted for it; thirty two stated stock dividend or a distribution of additional shares and four did not respond. The sizable 32 respondents who claimed they receive dividends in the form of additional stocks or shares confirms Maness' (1998) observation that stock dividend does not affect shareholder's wealth and affect neither the profitability nor risk of the firm's asset. Stock dividend may camouflage the ability of the corporation to pay cash dividend and to cover up the ineffectiveness of management in generating cash flow. Resultantly, wellformed investors are likely to react negatively to the reward of stock dividends. Regarding the profit after tax that will meet the expectation of shareholders as dividend, four of the respondents stated 30 percent; seventeen said 40 percent; twenty said 50 percent; whilst 30 said there was no such percentage specified and 12 did not respond. The declaration of dividends in the bank on one hand confirms the contention by Libby et al. (1998) that one of the most important rights associated with the ownership of ordinary/common stock is the right to receive dividends. On the other hand, the outcome from the study did not uphold Libby et al. (1998) contention that dividend yields for most shares/stock are quite low, often in the range of 1-2 percent. Concerning the response to the appreciation of the value of their shares, seventy of the shareholders replied in the affirmative while 10 said they had not experienced any appreciation in the value of their shares and another ten were uncommitted.

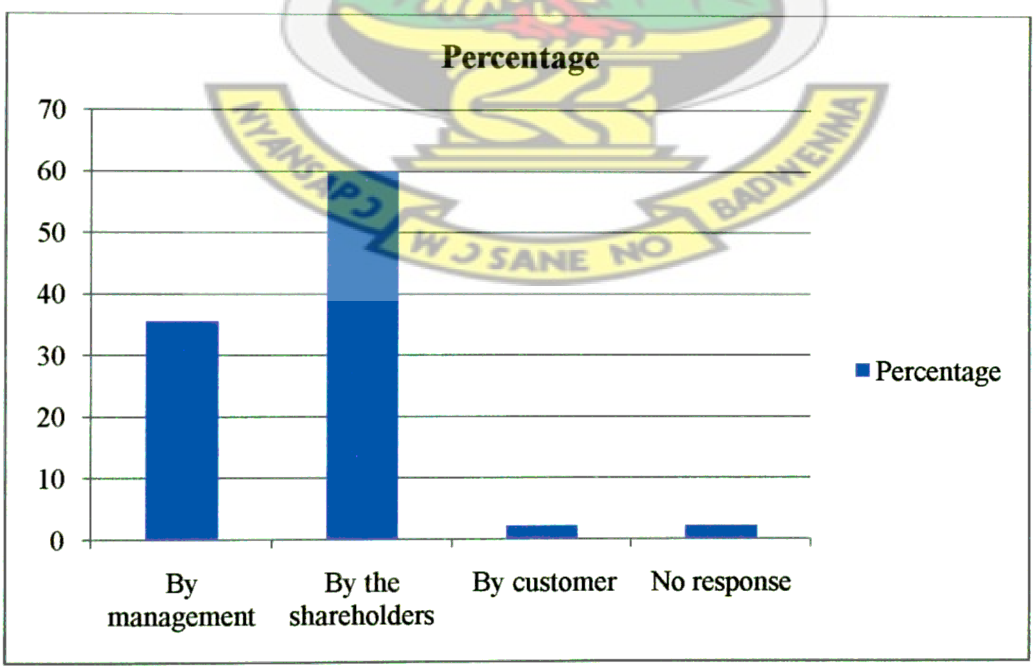

Figure 3: Modality for the appointment of directors to the board

Source: Field Survey 2009

4. 0. 4 Modality for Appointment of Directors

As to the modality for the appointment of directors to the board, it was disclosed as illustrated by Fig. 3 in page 47 that 54 of the shareholders supported the nomination by shareholders thereby giving credence to the observation of Bebchuk & Fried (2003) that in a world in which shareholders select individuals directors, directors might have an incentive to develop reputations as serving the interest of shareholders. Thirty two supported the nomination by the management and two supported the nomination by the customers while another two remained anonymous.

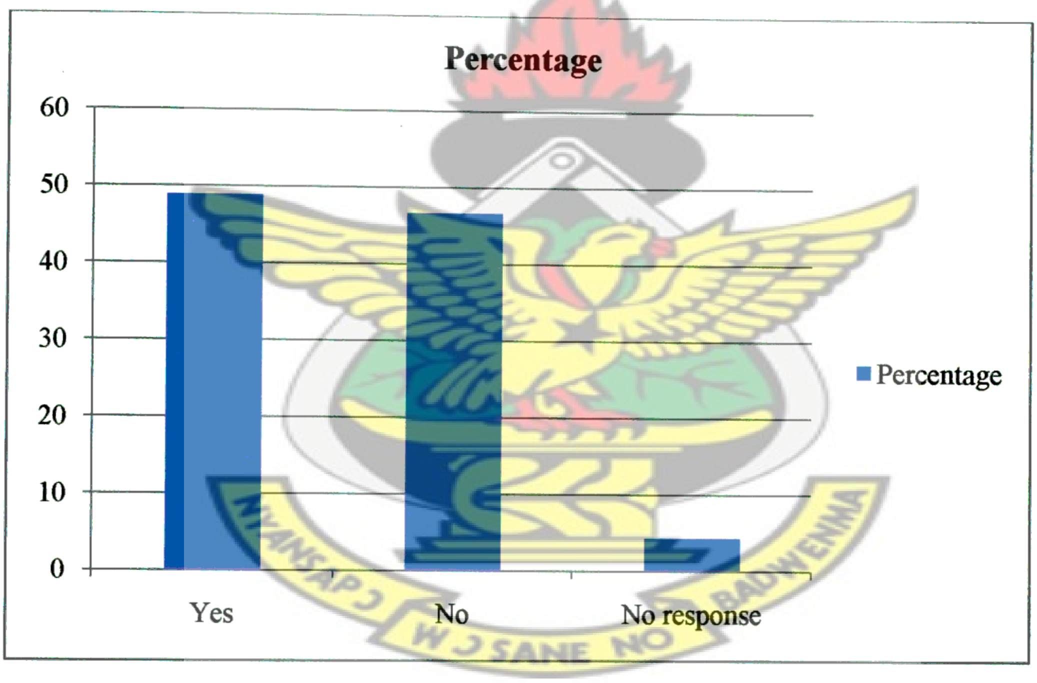

Figure 4: Influence that managers have on nomination of directors

Source: Field Survey 2009

In addressing the issue of whether the manager and/or board member can influence the nomination, re-nomination or appointment of a director, Fig.4 above demonstrates that opinion was sharply divided as 44 of the respondents supported the view while 42 did not support the view and the non-response was four. Among the reasons assigned by the 44 are that there are laid down policy guidelines that suggest a capable would-be director for approval at the Annual General Meeting (AGM); that the manager and/or the board member has an insider knowledge of the shareholder who has the skills to perform creditably and the fact that the manager and/or the board members are around and can recommend honest and trustworthy shareholders. The respondents said, among others, that the nomination, re-nomination or appointment of directors is the preserve of shareholders. It is worth stating that the observation from the study confirms the assertion by Bebchuk & Fried, (2003) that CEO's/manager plays an important role in re-nominating directors to the board. The study tried to establish the basic qualification for nominating a director to the board and it was realized that 54 of the respondents supported the view that he/she must be a literate; twenty eight said he/she must be a shareholder of at least 5 years; four said he/she must be a native of the locality and another four did not see the relevance of it. With regard to what the bank does to neutralize the influence of the key stakeholders such as managers, existing directors and board chairman, forty eight of the respondents said that can be achieved by ensuring that would-be directors satisfy laid down conditions and 25 said it can be achieved by summoning a meeting with the stakeholders. Nine of the respondents said the influence could be neutralized by distancing the stakeholders from the potential directors and four each could neither respond nor support any of the above variables.

Fifty nine of the ninety respondents stated that the directors have easy access to independent information from the management and 15 stated that the directors were denied access to independent information while 16 could not take a decision. Many reasons including ensuring that managers do not condone and connive with staff to misappropriate funds and ensuring that management do not influence their salaries to their advantage were assigned by the respondents who replied in the affirmative. The outcome from the study contradicts what Baker et al. (1998) posit while discussing compensation issues on managers that access to information further compounds the challenge of bringing managers under check. Baker et al. (1998) posit further that the transparency and salience of disclosure can have significant effect on CEO/manager's compensation.

The authors observe emphatically that the directors usually back easy access to independent information and advice on compensation practices necessary to effectively challenge the CEO's pay. Examining CEO's pay in almost 2000 firms in the USA during the period 1991-1997, Hartzell and Starks (2002) observe that the more concentrated is institutional ownership, the lower is executive compensation. They also find that a larger institutional presence results in performance-sensitive compensation. Resultantly, the absence of institutional ownership will provide a leeway for management to demand higher compensation. There was diversity of opinions in addressing the issue of how often the directors could be changed as reflected from the response. Thirty five of the respondents indicated yearly and stated further that they could be re-nominated for election; seventeen of them indicated three years while ten said two years. Fifteen of them stated that there was no specific policy in place and 13 did not respond.

4. 0. 5 Suspension, Retirement and Dismissal of Managers/Staff

In reaction to the question as to whether or not in practical terms shareholders can suspend, retire or dismiss a manager and/or staff of the bank, seventy of the respondents supported the view and eighteen of them did not support the view while two did not respond. The outcome upholds the view by Glueck et al., (1988 pp. 49-51) that the greatest power that most boards (and stockholders) have to influence strategy rests in their ability to remove a CEO and appoint a new one. Of the seventy who said shareholders could suspend, retire or dismiss a manager and/or staff of the bank, fifty four of them indicated that the authority had not been exercised since the last eight years and fifteen of them stated that the authority had been exercised and one was not committed. In answer to what constituted the main factor that makes it difficult for the shareholders to exercise the authority to suspend, retire or dismiss managers and/or staff of the bank, eleven of the eighteen who said no to the claim cited the cost to shareholders of forming coalition to depose management/staff; four of the eighteen cited the fact that the shareholders do not see the need to do so whilst three of them said the issue did not apply to their situation. The above observation reinforces the views of Bill & Pike (2003) and Ross et al. (1998) that shareholders can dismiss managers.

Admittedly, both schools of thought concede that the dismissal method is seldom applied as it is often difficult practically to implement due to difficulties of making a coordinated shareholder effort. Brownlee 11 et al. (1990) attest to the power of shareholders to appoint and dismiss directors thus upholding the outcome from the study. Nevertheless, Brownlee 11 et al.

(1990) recognize factors such as the inability of shareholders to observe undesirable practices by management; the costs to shareholders of forming coalition to depose management, and the uncertainty as to whether new management would perform better. Regarding the modality for the dismissal of a manager or any staff of the bank, Fig. 5 below makes it crystal clear that a manager or any staff can be dismissed on grounds of non-performance as 75 of the respondents supported the claim; seven of the them said when the manager fails to establish good rapport with the directors and four of them said when the manager does not grant loans to customers. Two of them said when the manager does not upgrade himself/herself and the other two constituted the non-response. In discussing gratuitous goodbye payments, Bebchuk & Fried (2003) observe that such payments are common even when CEOs performs poorly that the board feels compelled to replace. Bebchuk & Fried (2003) aver that the directors' willingness to make gratuitous payment to the poorly-performing CEO results from the CEOs relationship with directors.

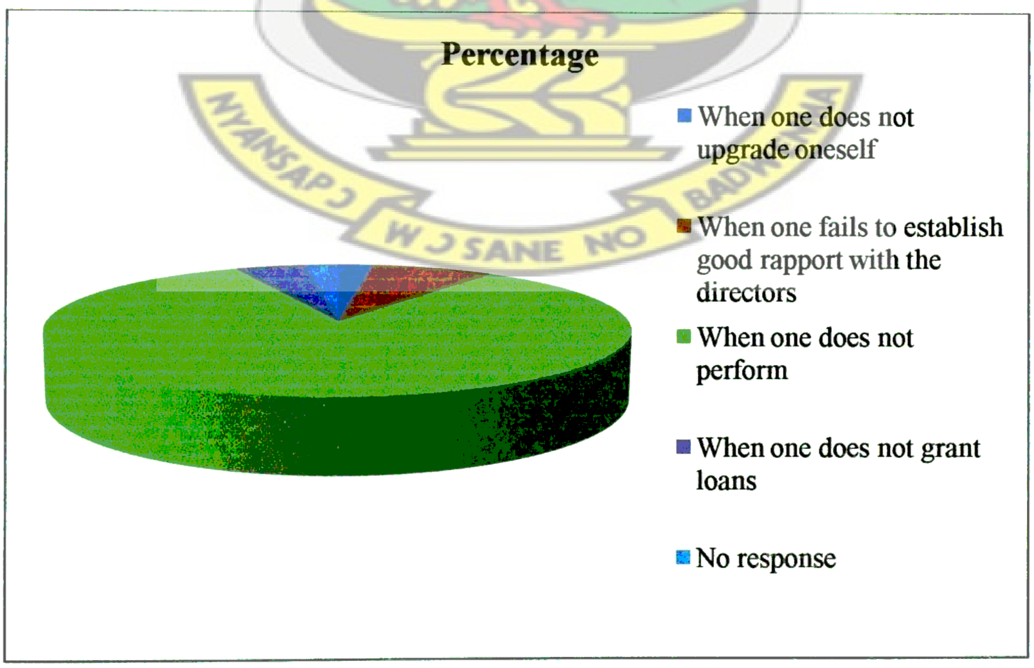

Figure 5: Modality for the dismissal of a manager or a staff

Source: Field Survey, 2009

The contention by Bebchuk & Fried (2003) provides an informed insight that a manager could be dismissed on grounds of non-performance.

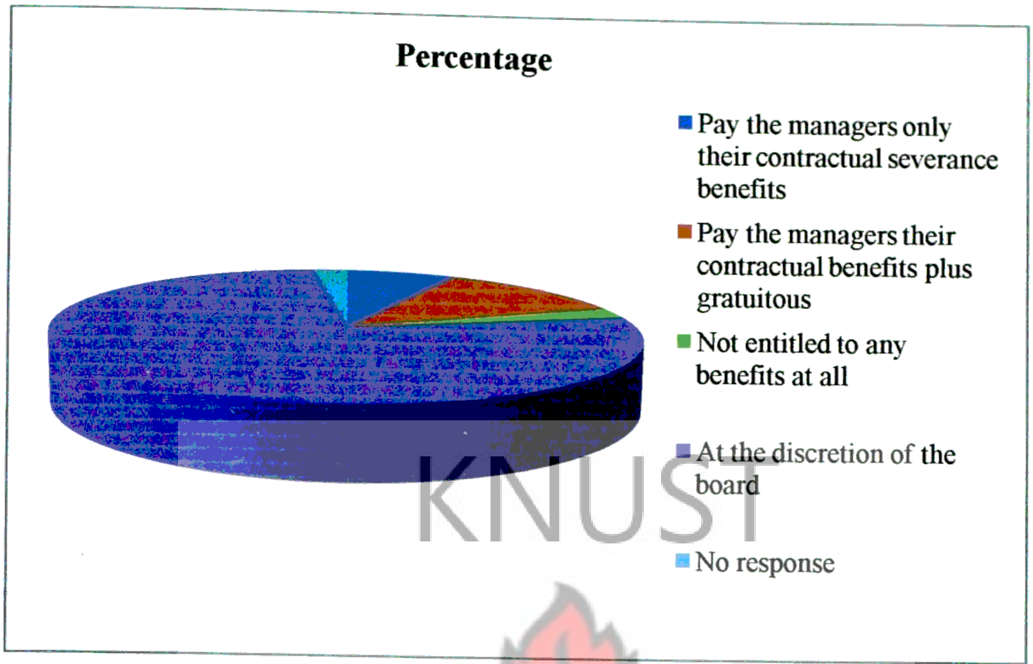

Figure 6: Type of compensation for departing managers fired or resigns

Source: Field Survey, 2009

On the question of how the board compensates departing managers fired or who resign as portrayed by Fig. 6, sixty nine of the respondents indicated that it is at the discretion of the board and eleven said the board does so by paying the managers their contractual benefits plus gratuitous goodbye payments. Six of the respondents claimed departing managers are compensated by paying the managers only their contractual severance benefits while two stated that departing managers are not entitled to any benefits at all. The outcome is in contrast to the observation by Bebchuk & Fried (2003) that boards give departing CEOs/managers payment and benefits that are gratuitous, that is, not required under the terms of the managers' compensation contract. Bebchuk & Fried (2003) state, as a matter of emphasis, that the board has the authority to fire the manager/CEO and pay the manager the contractual severance benefits.

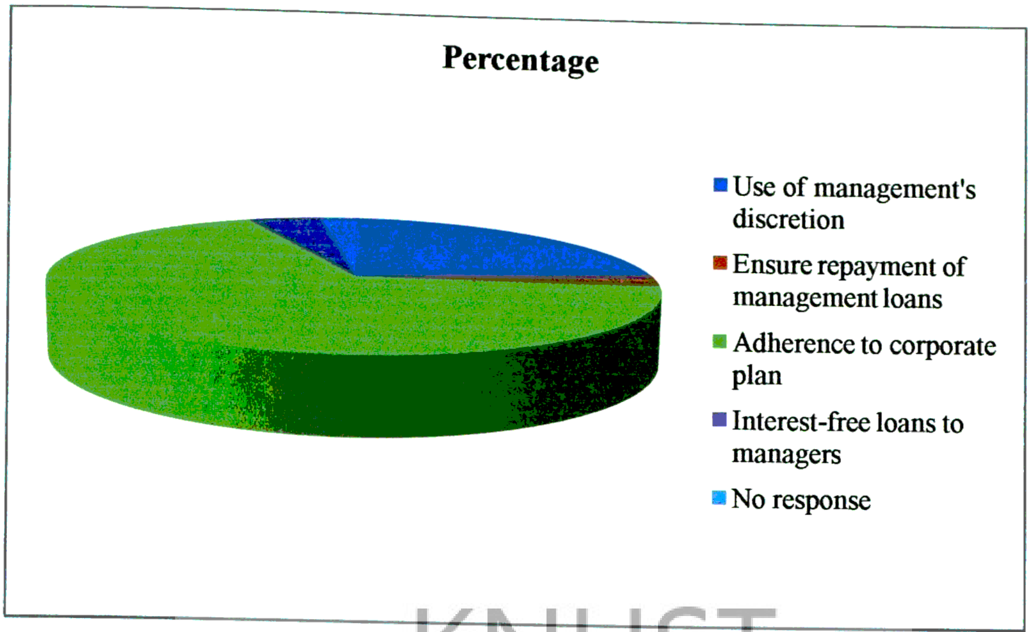

Figure 7: Minimization of conflict between shareholders and managers

Source: Field Survey, 2009

Fig.7 addressed the thorny issue of how the potential conflict between shareholders and managers of the bank could be minimized. Sixty one of the respondents claimed the conflict could be minimized by ensuring that the corporate plan is rigidly adhered to; twenty one said it could be done by ensuring that management use their discretion; four said it could be minimized by ensuring that managers get interest-free loans, and two claimed the conflict could be minimized by ensuring that loans granted to managers are paid. By strict adherence to the corporate plan, one can deduce that the delicate issue of management pursuing objectives that are not beneficial to the shareholders and the issue of inadequate compensation to management will, to some extent, be addressed. As to whether or not employees of the bank are permitted to buy shares so as to become shareholders, forty seven of the respondents supported the claim and ten did not. Twenty three stated that the claim did not apply to the bank and two of them did not respond.

The study also established the fact that the bank embarks on Corporate Social Responsibilities (CSR) in the form of the provision of agricultural implements such as cutlasses to the shareholders in the communities they operate. Other CSR include offering scholarship facilities to both brilliant but needy students and pupils; provision of roofing sheets to deprived schools; sponsoring District Assemblies programmes; assisting communities in developmental projects and the offering of financial assistance to traditional chiefs especially during annual festivals. As to whether or not the bank has chalked success that commensurate with the age of the bank, sixty two of the shareholders supported the claim that the success commensurate with the age of the bank; twenty three did not support the claim that the bank had experienced commensurate success and five of them remained uncommitted.

The sixty two respondents who supported the claim gave various explanations including the bank's ability to put up their own building; the bank's ability to increase profit margins; the fact that the bank has increased the shareholders' wealth and finally the claim that the bank had recovered fully from the financial distress and its associated stigmatization it went through and had re-established itself and re-gained confidence and improved customer care. The twenty three who in their objective assessment said the bank has not chalked success that commensurate with the age of the bank assigned the stated reasons: they claimed the bank has not been able to extend its services and the bank has not been able to open any branch. Other reasons that were put forward are that the change of management and staff following the financial distress of the bank affected productivity while some of them in comparing the bank with a sister bank called Awiebo Rural Bank stated that the former is performing below expectation. It was disclosed through my interaction with management that the financial distress affected the growth of the bank in the past. Regardless of the distress, management claimed the bank has since recovered from the negative effects that were slapped on the bank. Management, again, indicated that plans were far in advance to merge with Awiebo Rural Bank which is just about twenty kilometres away and offers the keenest of competition among the banks in the vicinity.

4.1 Analyses of the Management Team

4.1.1 Demography of management

Of the four management staff, two were 51 years and above; and one each was in the 20-30 and 31-40 year brackets respectively. Regarding their relationship with the bank, it was realized that two of them were project managers and the other two stated that they were members of the management team. All the four had attained education to the tertiary level in the form of university degrees, diplomas and recognized professional qualification and that could reflect in the quality of decisions that are taken. In reaction to the question of how long the four management team has been with the bank, it was established that two of them representing 50 percent have spent an average of four years and the other two accounting for same percentage have spent an average of two years. Probing further, it was realized that the two who have spent an average of two years replaced management staff that attained the mandatory retiring age of sixty years.

4.1.2 Goal /objective managers pursue

As regards the goal or the objective that they pursue, it was evident that three of the management staff stated that the managers pursue policies of survival or empire building and one of them did not respond. This trend upholds the observation of Shleifer & Vishny (1997) that managers may use their discretion to benefit themselves personally in a variety of ways including empire building and may fail to distribute excess cash when the firm does not have profitable investment opportunities. Again, the trend affirms the position of McLaney (2006) that by providing themselves with larger empires through mergers and internal expansion, management increase their opportunities for promotion and social status. On the contentious issue of whether or not managers actually act in the best interest of shareholders, three of them stated that they act in the best interest of the shareholders while one said the managers do not do so.

The response may seem contradictory, but it is not, since the shareholders find ways of ensuring that their agents (the managers) act in their interest. The above observation on one hand confirms Bill & Pike's (2003) assertion that the threat of being sacked coupled with the accompanying humiliation and financial loss may encourage managers not to diverge too far from the shareholders' wealth path. On the other hand, the observation is in contradiction with the assertion by Moyer et al. (2001) that the maximization of their own personal welfare may lead managers to be concerned with long-run survival (job security). According to Myers 2003, the board of directors represents the shareholders and they appoint top management and it is supposed to ensure that managers act in the shareholders' interest and this outcome endorses Myers' contention.

4.1.3 Managers' Action in Congruence with Shareholders' Objective

In reaction to what management is doing for which they think it is in best interest of the shareholders, it became evident that two of the four management team expressed the opinion that it is achieved by demonstrating commitment and the other two said it is achieved by complying with the terms and conditions of the employment. The study tried to ascertain the way in which management seeks to maximize their welfare and it was revealed by all the four that it can be realized by reducing risk through diversification which may improve the security of managers. It is worth stating that the outcome affirms the observation of Moyer et al. (2001) that maximization of the personal welfare or utility of management may lead managers to be concerned with long-run survival (job security). Moyer et al. (2001) further note that the concern for long-term survival may lead management to minimize the amount of risk incurred by the firm, since unfavourable outcomes can lead to their dismissal or possible bankruptcy for the firm.

4.1.4 Declaration of Dividends

On the issue of whether the dividends declared meet the expectation of the shareholders, three of the management team supported the claim and one did not. It was unanimously accepted that the board of directors initiates the distribution of dividends to shareholders as all the four accounting for 100 percent were in agreement. All the four agreed that the form of dividends that is declared was cash. When asked whether if dividend is not paid for a particular year it is deferred to the following year or not, two of them did not respond; one did not support the claim and the other one said it did not apply to their situation. Regarding the issue of whether the bank has attained reasonable growth since its establishment, three were in agreement that the bank has attained that achievement whilst one of the management team gave a contrary view. In explaining their position, the three who were supportive of the view said the bank has seen a consistent growth in all aspects and the one who did not support the claim explained that it was due to mismanagement arising from personal interest.

All the respondents stated the bank owes the communities in which it operates social responsibilities in the form of the granting of scholarship facilities to the brilliant but needy students; sponsoring clean-up activities by providing sanitary accessories; doling out of monies to traditional authorities for developmental projects and donating monies for charitable purposes. This observation confirms what the shareholders earlier on indicated and more importantly upholds the assertion by Moyer et al. (2001) that most firms now recognize the importance of the interests of all constituent groups: customers, employers, suppliers, and the communities in which they operate.

4.1.5 The Relationship between Management and the Board and the Management and Shareholders

In seeking their opinion on how they rate the relationship between the manager or management on one side and the board on another side, it was proven that two of the four respondents rated it as very good, that is, above 65 per cent; one rated it as good, that is, above 60 per cent and the other one rated the relationship as excellent, that is, above 70 per cent. The weighted average turns out to be 65 per cent. Again, the relationship between the management and the shareholders was rated by two of them as very good, one as good and the other one as poor giving a weighted average of 57.5 per cent. It is clear that the management of the bank relates better with the board than the shareholders and an improvement in such relationship will be most appreciated. The above trend, though contentious, can be interpreted to mean there is an existence of conflict between the management and the owners of the bank.

4.1.6 Conflict Minimization Between Shareholders and Managers

As to how the potential conflict between shareholders and managers of the bank will be minimized, it was disclosed by all the four representing 100 percent stated that the conflict could be minimized by ensuring that the corporate plan is rigidly adhered to. Such a disclosure confirms the outcome from the shareholders response of which sixty one of the shareholders backed the claim. Reacting to who constitutes the bulk of the bank's customers, two of them indicated teachers and other government employees and another two of the respondents were not committed. This revelation implies that the other variables like traders/fishermen, farmers and the self-employed are potential areas to be exploited bearing in mind that the private sector is the engine of growth. Besides the salary, the management team listed some of their perks or benefits as: loans at concessionary rates; accommodation allowance, and signing and responsibility allowance. Other perks stated are fuel and maintenance allowance and out-of-station and night allowances. On the issue of what additional investment portfolio the bank engages in besides the building of reserves after the payment of dividend, all the four indicated that the bank has shares in ARB Apex Bank and also invests in government stocks.

Probing into the average time spent by a customer per transaction, two of the respondents indicated that the average time is less than 10 minutes; one indicated that the average time is 15 minutes and above; and one also stated that the average time was not specified. On the issue of how customers are motivated and attracted to the bank, it was established that three of the management team stated that they achieve that through quick service delivery and one stated they achieve that through the granting of short-term loans. The response from the management is a step in the right direction since every customer is looking not only for valued products but also quick and reliable service.

4.1.7 Main Challenge that Confronts the Bank

As regards the main challenge that confronts the bank two of the respondents accounting for 50 percent accepted the fact that the problem of loan recovery is the main challenge; one each representing 25 percent stated the challenge of competition from neighbouring banks and the other indicated the lack and loss of trust and confidence in both management and the board of directors by potential customers. With regard to the strategies that have been put in place to forestall the above challenges, the management team enumerated the factors below: loans must be properly guaranteed; debt recovery must be vigorously pursued through negotiations with defaulters and finally through the law courts; introduction of attractive products and the provision of efficient and reliable services. Other strategies included the appointment of well resourceful persons to the board; the adoption of proper marketing strategies and finally the employment of qualified and suitable persons for the job.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

The chapter presents not only the summary of findings and conclusions but also the recommendations. The thesis is informed by the facts and figures ascertained from the survey.

5.0 Summary

The survey sought to assess the agency problem and the control of the business in the Ankobra West Rural Bank of the Western Region. Two sets of questionnaires were designed and administered using self-administered and interviewer-administered questionnaires. One set, with a sample size of ninety, was for the shareholders and the other set was for the management who were four. Simple random sampling technique was applied so as to offer every member equal chance of being selected and the data was gathered from a randomly sampled population of ninety shareholders. Concerning the four management team, purposive sampling was used as earlier on indicated. The data was analysed according to the demography of the shareholders and the management; the ownership and management; the linkage between shareholders' wealth improvement and that of management and finally the dismissal of managers and his staff declaration of dividends, the relationship between management and the board and between management and the shareholders were ascertained. In the above analysis, Dillman's (2000)

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5.1 Summary of Findings

The following findings were arrived at on the basis of the data that was gathered:

- It was ascertained that there were no institutional shareholders in the bank.
- It was disclosed that the educational qualifications of the shareholders is low.
- Majority of the shareholders have related with the bank for more than five years.
- It became evident that the business objective of the bank was the survival of the bank through expansion.
- It was established that the shareholders expect the management to pursue the goal of wealth maximization.
- The study disclosed that the long-term objective/ambition was the growth of profits and or assets.
- It was revealed that the shareholders control the bank through the board of directors.
- Majority of the shareholders contend that the bank does not grant loans to the executive of the bank as camouflage benefit.
- It was established that the managers of the bank are paid based on performance or equity-based.

The study disclosed that dividend is declared every year and cash dividend was the practice in vogue.

It was established that directors are appointed through nomination by the shareholders.

The study disclosed that the directors have easy access to independent information concerning the managers' compensation.

It was evident that the qualification for the nomination and re-nomination of a director is that the one must be a literate.

The fact was established that shareholders have experienced appreciation in the value of their shares.

Majority of the respondents contended that the conflict between shareholders and managers can be minimized by ensuring that the corporate plan of the bank is rigidly adhered to.

It was established that a manager or a staff of the bank can be dismissed on grounds of non-performance.

The study ascertained that the type of compensation for departing managers that resign or that are fired is at the discretion of the board of directors.

The fact was ascertained that the bank has corporate social responsibility concerns.

It was discovered that the management of the bank pursues a policy of survival or empire building and thereby confirms the existence of the agency problem.

Majority of the management team contended that they act in the interest of the shareholders.

The survey disclosed that management maximizes their welfare by reducing the level of risk through diversification.

It was evident that the dividend declared meet the expectation of the shareholders.

The fact was revealed that the relationship between the management and the board was rated 65.7 percent and that of management and the shareholders was 57.5 percent.

Majority of the management team agreed that teachers and other government employees constitute the bulk of the bank's customers.

It was ascertained that by the management team that the bank has achieved reasonable success.

The fact was established that besides the salary, management enjoys perks or benefits such as loans at concessionary rates; accommodation allowance and signing and responsibility allowance.

Management identified the issue of loan recovery as the main challenge.

5.2 Conclusions

Based on the findings from the study, it could be conveniently concluded that the agency problem pertains in the bank. Besides the agency problem, there were challenges of loan recovery and a stiff competition from sister rural banks particularly that of Awiebo Rural Bank which is about twenty kilometers away. Shareholders ensure that management act in their interest by instituting welfare packages such as the signing and responsibility allowance. The potential conflict between the shareholders and management is reduced when the latter rigidly adheres to the corporate plan of the bank. The threat of being dismissed makes management do their best to act in the best interest of the shareholders who actually control the business through the board of directors. Dividends are declared annually and the shareholders have experienced an appreciation in the value of their shares however small it might be. Finally, it must be admitted that the relationship between management and the board is more cordial than between the former and the shareholders.

5.3 Recommendations

From the findings so far assembled from the survey, the following recommendations are suggested:

- The bank must target the youth since the majority of the current shareholders are very old.
- Vigorous shares floatation strategy must be pursued to rope in new shareholders as about 97 percent of the respondents have owned shares for more than five years.
- Institutional investors should be rigorously embarked on to enrich the shareholders impact at AGM; neutralize the power of the managers and ensure inflow of more liquidity.
- As the private sector is the engine of growth, the informal sector involving the self-employed; drivers; traders; farmers; fishermen and the artisans must be focused on as both customers and shareholders.
- On loan recovery, it is recommended that responsible lending procedures should be adhered to so as to minimize loan default.
- A merger between Awiebo Rural Bank and theirs will be an innovative idea as a solution to the rivalry of competition.

- Camouflage benefits like the stock options must be instituted to encourage management to give of their best.
- A policy on a specified percentage of profit after tax to be declared as dividend must be formulated to set most shareholders' minds at rest.
- The list of shareholders should be updated to forestall any anomalies in terms of change of names; their proper local names and exact locations. Names must be re-arrangement alphabetically for easy identification.
- The bank must formulate a policy on the compensation for departing managers who either resign or are fired.
- The bank should rebuild the trust and confidence they have lost with customers through the introduction of attractive services and products; quick service delivery, and the employment of qualified personnel so as to form a strong management team and a strong board.

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KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY: QUESTIONAIRE FOR THE SHAREHOLDERS AND BOARD MEMBERS OF ANKOBRA WEST RURAL BANK IN THE ELLEMBELLE DISTRICT OF GHANA

Dear Respondents,

This research is being conducted to evaluate the Agency Problem and the Control of the Business in the Bank. I am a final year Master of Business Administration student in the School of Business of the Kwame Nkrumah University of Science and Technology. Please confidentiality is assured in this exercise. Your identity is therefore not required. Kindly feel free to respond to the questions objectively. For the purpose of the research, the questionnaire is grouped into two sections: One section is for the shareholders and the other for management.

Please make a tick or underline your response or write your response in the space provided.

1. How old are you?

   a. 20-30 years　　b. 31-40 years

   c. 41-50 years　　d. 51 and above

2. What is your relationship with the bank?

   a. A Co-opted member

   b. Shareholder

   c. Board member (Director)

   d. Chairman of Board

3. For how long have you been shareholder/ co-opted member /board member /Chairman of Board?

a. Average of 2 years
b. Average of 3 years
c. Average of 4 years
d. Above five years

4. Since when did you become a shareholder of the bank?

a. A year ago
b. 2 years ago
c. 3 years ago
d. More than 4 years ago

5. What is your highest certificate?

a. An illiterate
b. MSLC/JSS
c. SSS O'L/ A'L
d. Diploma/degree/recognized professional

6. What business objective does the bank seek to achieve?

a. Profit maximization

b. Satisfactory return for all participants

c. Survival of the bank by expanding its activities

d. Maximization of the shareholders' wealth.

7. What goal do the shareholders (owners) expect the managers to follow?

a. To increase the value of shareholders shares

b. To ensure equal returns for all shareholders

c. To break even (that is, to be able to pay her debts)

d. To derive maximum profit

8. What is the long-term objective /ambition of the bank?

a. Growth of profits and or assets of the bank

b. Survival of the bank.

c. Building reserves

d. Ploughing back of profits into the bank

9. Who indeed controls the bank?

a. The management (manager & senior bank staff)

b. The customers

c. The shareholders through the board of directors

d. Creditors

10. Who determines the salary and allowances of the manager and staff?

a. The association of rural banks

b. Shareholders

c. Compensation consultants

d. Directors of the board

11. Does the bank grant loans to the executives (managers and directors) as camouflage benefit?

a. Yes

b. No

c. Not applicable

12. If yes, do the loans attract same lending rate?

a. Same lending rate

b. Reduced lending rate

c. The bank pays the interest on the manager's loan

d. Not applicable

13. Are loans given to managers to buy shares forgiven if the value of the shares fall below the amount due on the loan?

a. Yes b. No c. Not applicable

14. What is the average percentage of the bank's profit that is given to manager as compensation? (salary and allowances)

a. 5-10 percent b. 11-20 percent

c. Not specify d. Above 20 percent

15. What type of compensation does the bank embark on?

a. Equity-based (on managerial performance) performance

b. Based on peer group salary structure (other managers' salary)

c. Not based on performance

d. Based on the influence of the players

16. Are dividends declared every year?

a. Yes b. No

17. Have dividends being consistently declared from the year (2005- 2007)

a. Yes b. No

18. If yes, what form of dividend is declared?

a. In the form of appreciation of shares

b. In the form of cash

c. In the form of additional shares otherwise referred to as stock dividend

d. Not applicable

19. What percentage of profit after tax do you think, as a shareholder, will meet the expectation of shareholders as dividends?

a. 30 percent

b. 40 percent

c. 50 percent

d. No such percent specified

20. Have you experienced appreciation (value of your shares gone up) in the value of your shares since the year 2006?

a. Yes, if yes how much?

....

b. No, if no what are reasons?

....

21. How are directors to the board appointed? Through:

a. Nomination by the management (top personnel of the bank)

b. Nomination by the shareholders

c. Nomination by the public

d. Nomination by the customer

22. Can the manager and /or board member influence the nomination or appointment of directors to the board?

a. Yes   b. No

Explain your choice

....

23. One of the basic qualifications of nominating a director to the board is

a. Must be a customer

b. Must be a literate

c. Must be a native of the locality

d. Must be a shareholder of at least 5 years

24. How does the bank neutralize the influence of the key stakeholders (managers; existing directors; board chairman) on the appointment and re-appointment of directors to the board?

a. By summoning a meeting without the stakeholders

b. By distancing the stakeholders from the potential directors

c. By ensuring that the would-be directors satisfy the laid-down conditions

d. None of the above

25. Do directors have easy access to independent information and advice on manager's or management's pay?

a. Yes, if yes, explain ……………………………………………….

…………………………………………………………………………….

b. No, if no, why?

……………………………………………………………………………...

26. How often are directors changed?

a. Every year

b. Every 2 years

c. Every 3 years

d. No specific policy on that

27. In practical terms can the shareholders suspend, retire or dismiss a manager and/or staff of the bank?

a. Yes b. No

28. If yes, has this authority been exercised by shareholders since the last five years?

a. Yes b. No

29. If no, what key factor makes it difficult for shareholders(through the Board) to exercise the above authority?

a. The cost to shareholders of forming coalition to depose management/staff

b. The fact that shareholders do not see the need to do so

c. The fact that the manager and/or staff are too powerful to be disciplined

d. Not applicable

30. On what grounds can a manager or any staff of the bank be sacked?

a. When he/she does not upgrade himself

b. When he fails to establish good rapport with the directors

c. When he does not perform- thus on grounds of non-performance

d. When he does not grant loans to customers

31. How does the board compensate departing managers fired or resigned?

a. Pay the managers only their contractual severance benefits

b. Pay the managers their contractual benefits plus gratuitous goodbye payments

c. Not entitled to any benefits at all

d. At the discretion of the board

32. How is the potential conflict between shareholders and managers of the bank minimized?

a. By ensuring that management use their discretion in running the bank

b. By ensuring that loans granted to managers are paid

c. By ensuring that the corporate plan is rigidly adhered to

d. By ensuring that managers get interest-free loans

33. Are employees of the bank permitted to buy shares so as to become shareholders?

a. Yes b. No

34. In the Rural Banking set up, what are some of the corporate/ social responsibilities of the bank?

a...

b. ....

c. ……………………………………………………………………..

d………………………………………………………………………..

35. In your objective assessment has the bank chalked success that commensurate with the age of the bank?

a. Yes, Explain

………………………………………………….

b

No, why?……………………………………………………………

…………………………………………………………………………….

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY: QUESTIONAIRE FOR THE MANAGEMENT OF ANKOBRA WEST RURAL BANK IN THE ELLEMBELLE DISTRICT OF GHANA

Dear Respondents,

This research is being conducted to evaluate the Agency Problem and the Control of the Business in the Bank. I am a final year Master of Business Administration student in the School of Business of the Kwame Nkrumah University of Science and Technology. Please confidentiality is assured in this exercise. Your identity is therefore not required. Kindly feel free to respond to the questions objectively. For the purpose of the research, the questionnaire is grouped into two sections: One section is for the shareholders and the other for management.

Please make a tick or underline your response or write your response in the space provided.

1. How old are you?

   a. 20-30 years

   b. 31-40 years

   c. 41-50 years d. 51 and above

2. What is your relationship with the bank?

   a. Manager

   b. Project manager

   c. Assistant manager

   d. Member of management

3. For how long have you been with the Bank?

a. Average of 2 years b. Average of 3 years

c. Average of 4 years d. Above five years

4. What is your highest certificate?

a. An illiterate

b. MSLC/JSS

c. SSS O'L/ A'L

d. Diploma/degree/recognized professional

5. What main goal/objective do the managers pursue?

a. Growth of profits and /or assets

b. Long-term stability

c. Pursue policies of survival/empire building

d. Maximisation of capital employed

6. Do managers actually act in the best interest of shareholders?

a. No

b. Yes

c. Not applicable

7. What is management doing for which they think it is in the best interest of the shareholders?

a. By demonstrating commitment

b. By complying with the terms and conditions of the employment

c. By giving out soft loans to encourage customers

d. By ensuring that loans are recovered promptly

8. In what way do management of the bank seek to maximize their welfare?

a. Paying themselves with high levels of salary and allowances

b. Reducing risk through diversification which may improve the security of managers

c. Through expansion by providing themselves with larger empires so as to increase their opportunities for promotion.

d. Granting of interest–free loans to themselves

Additional information, if any, to be provided

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9. Who determines the salary and allowances of the manager and staff?

a. The association of rural banks

b. Shareholders

c. Compensation consultants

d. Directors of the board

10. Who initiates the distribution of dividends to shareholders?

a. The creditors

b. The managers

c. The Board of Directors

d. The customers

11. Are dividends declared every year?

a. Yes b. No

12. Have dividends being consistently declared from the year (2005-2007)?

a. Yes b. No

13. If yes, what form of dividend is declared?

a. In the form of cash

b. In the form of additional shares otherwise referred to as stock dividend

c. Not applicable

14. If dividend is not paid for a particular year is it deferred to the following year?

a. Yes

b. No

c. Not applicable

15. In your own estimation, do the dividends that are declared meet the expectation of the shareholders.

a. Do not meet the expectation.

b. Meet the expectation of shareholders.

c. Far above what they expect (is very high).

d. Far below the expectation of shareholders.

16. Can the manager influence the nomination or appointment of directors to the board?

a. Yes, how? ……………………………………………………………..

……………………………………………………………………………………

b. No

Explain your choice

……………………………………………………………………………………

17. Can the manager affect positively or negatively the directors' compensation and perks?

a. Yes

b. No

c. Not applicable

Explain your choice

………………………………………………………………………

18. How do you rate the relationship between the manager or management on one side and the board on another side?

a. Poor: below 40% c. Excellent: above 70%

b. Good: above 60% d. Very good: above 65%

19. In the same vein, how do you rate the relationship between management and the other shareholders who are not directors?

a. Poor: below 40%

b. Excellent: above 70%

c. Good: above 50%

d. Very good: above 65%

20. How is the perceived potential conflict between shareholders and managers of the bank minimized?

a. By ensuring that management use their discretion in running the bank

b. By ensuring that loans granted to managers are paid

c. By ensuring that the corporate plan is rigidly adhered to

d. By ensuring that managers get interest-free loans

21. Who constitute the bulk of the Bank's customers?

a. Traders/ fishermen

b. Farmers

c. Teachers and other government employees

d. Self-employed people

22. In your own objective assessment, has the bank attained a reasonable growth since year 2000?

a. Yes,

because……………………………………………………………

b. No,

because………………………………………………………

23. In the Rural Banking set up, what are some of the corporate/ social responsibilities of the bank?

a.………………………………………………………………………

b. ……………………………………………………………………..

c. ……………………………………………………………………..

d.……………………………………………………………………

24. Besides the salary, what are some of the perks or benefits given to management.

a.. . …………………………………………………………………..

b. ……………………………………………………………………..

c. ……………………………………………………………………..

d. …………………………………………………………………...

25. Besides building reserves for the bank, what investment portfolios do the bank engage in after payment of dividends?

a. ………………………………………………………………………

b. ………………………………………………………………………

c. ……………………………………………………………………...

d. ……………………………………………………………………...

26. As management how do you manage your loan portfolio?

a. ………………………………………………………………….

b. ....

c. ....

d. ....

27. What is the average time spent by a customer per a transaction?

E.g. withdrawals, lodgings

a. Less than10 minutes b. 15 minutes and above

c. 20 minutes and above d. Not specify

28. How do you motivate and attract customers to the Bank?

a. Through granting of short-term loans

b. Through quick service delivery

c. Through lower interest rates on loans

d. Through high interest rates on deposits

29. What is the main challenge confronting the bank?

a. Competition from neighbouring banks at Awiebo and Axim

b. The problem of debt or loan recovery from customers

c. Lack/loss of trust and confidence in both management and the board by potential customers

d. Cash flow difficulties (e.g problem in getting enough money to run and expand the bank)

30. What measures or strategies have the board and management put in place to overcome the above challenge if any?

a. ....

b. ....

c. ....

d. ....