

THE EFFECT OF CORPORATE GOVERNANCE ON THE FINANCIAL
PERFORMANCE OF LISTED FINANCIAL INSTITUTIONS IN GHANA.

BY
KNUST

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DECLARATION

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

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DEDICATION

I dedicate this thesis work to my father and Mother & my families for their contributions, support and understanding throughout this thesis work. .

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I wish to express my sincerest gratitude to the Almighty God for his abundant grace he showered on me from the beginning of this course to the end of it culminating into writing of this thesis. I would also like to express my deep gratitude to my supervisor, Dr. Joseph Oscar Akotey whose high level of expectation inspired me to get above myself to produce this material. I will never forget all the advice, the queries and the criticisms he made about the work without which I would not stay on track. I feel highly indebted to you Sir. I also would like to say kudos to my parents and siblings for their courteous and encouraging demeanor towards me in the course of pursuing this programme. I also thank my family for their love, understanding, support and encouragement throughout this thesis. I am also grateful to Mr. Saeed Musah Mohammed for his support throughout this thesis. Finally, I am equally thankful to all my friends for their support and encouragement.



ABSTRACT

The aim of this study is to examine the effect of corporate governance on the performance of listed financial institutions in Ghana. Using a panel data regression analysis for listed banks between 2008-2018 to examine whether corporate governance mechanisms affect banks financial performance. The key findings reveal negative and significant relationship between board size and banks performance, negative and significant relationship between board remuneration and banks performance, negative and significant relationship between board gender diversity and banks performance and positive and significant relationship between board independence and banks performance. The study recommends that since board size have been noted to negatively correlate to financial performance using ROA and ROE, shareholders of listed financial institutions are advised to keep and maintain reasonable number of people as directors in steering the affairs of the company on their behalf.

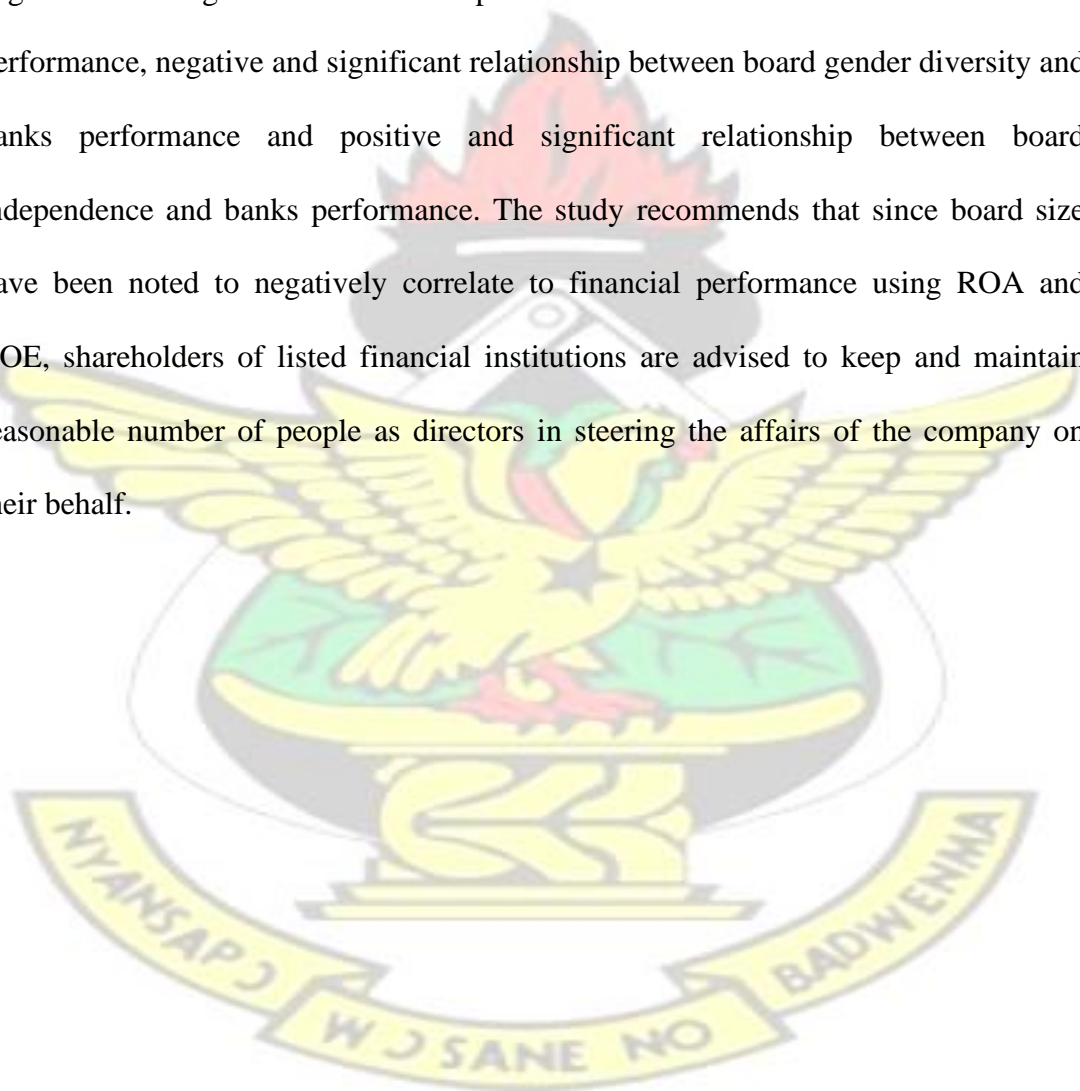


TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
LIST OF TABLES	x
LIST OF FIGURES	xi
ACRONYMS	xii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the study	1
1.2 Problem Statement	3
1.3 Objectives of the Study.....	5
1.4 Research Questions	5
1.5 Significance of the Study	6
1.6 Scope of the Study	6
1.7 Limitation of the study.....	7
1.8 Organization of the Study	7
CHAPTER TWO	8
LITERATURE REVIEW	8
2.1 Introduction.....	8
2.2 Conceptual Review	8
2.2.1 Corporate Governance	8
2.2.2 The Importance and benefits of Corporate Governance	10
2.2.3. The Components of Effective Corporate Governance.....	13
2.2.4 Areas for an Effective Corporate Governance Practices.	14

2.2.5 The Corporate Governance Guidelines in Ghana	17
2.2.6 Mechanisms of Corporate Governance Structure	18
2.2.6.1 Separation of CEO and Chairman.....	18
2.2.6.2 Board Size	19
2.2.6.3 Board Composition	20
2.2.6.4 Board Committees	20
2.2.6.5 Director Remuneration.....	21
2.2.6.6 Corporate Reporting and Disclosures	21
2.3 Theoretical Review	21
2.3.1 Corporate Governance Theories.....	21
2.3.1.1 Agency Theory.....	22
2.3.1.2 Stakeholder Theory	25
2.3.1.3 Legitimacy Theory	27
2.3.1.4 Political Theory.....	28
2.3.1.5 Stewardship Theory	29
2.4 Empirical Review.....	31
2.4.1 Empirical Studies on Corporate Governance.....	31
2.5 Conceptual Framework.....	33
2.6 Overview of Banking Industry in Ghana	34
2.7 Chapter Summary	36
CHAPTER THREE	37
METHODOLOGY	37
3.1 Introduction.....	37
3.2 Data and Data Sources	37
3.3 Methodology	38
3.4 Variables Definitions	39
3.4.1 Dependent Variables.....	39

3.4.1.1 Return on Assets (ROA)	39
3.4.1.2 Return on Equity (ROE)	40
3.4.1.3 Earnings per share.....	41
3.4.2 Independent Variables	42
3.4.2.1 Directors Remuneration	42
3.4.2.2 Board Gender Diversity	42
3.4.2.3 Board Size.....	43
3.4.2.4 Board Independence.....	43
3.4.3 Control Variable.....	44
3.4.3.1 Firm Size.....	44
3.5 Model Justification.....	44
CHAPTER FOUR.....	46
RESULTS AND DISCUSSIONS	46
4.1 Introduction.....	46
4.2 Descriptive Analysis	46
4.3 Inferential Statistics	47
4.4 Discussion of Analysis.....	50
4.4.1 Relationship between Board Size and performance of listed banks in Ghana.	50
4.4.2 The effect of board remunerations on the performance of listed banks in Ghana.	51
4.4.3 The association between board gender diversity and performance of listed banks in Ghana.	52
4.4.4 The effect of board independence on listed banks performance in Ghana.	52
4.5 Regression Statistics	54
4.5.1 Summary Output.....	54
4.6 Regression Coefficient Model	55
4.6.1 Interpretation of the Regression Formula.	56

CHAPTER FIVE	57
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS	57
5.1 Introduction.....	57
5.2 Summary of Findings.....	57
5.2.1 Relationship between Board Size and performance of listed banks in Ghana.	57
5.2.2 The effect of board remunerations on the performance of listed banks in Ghana. ...	58
5.2.3 The association between board gender diversity and performance of listed banks in Ghana.	58
5.2.4 The effect of board independence on listed banks performance in Ghana.	59
5.3 Conclusion	59
5.4 Recommendations.....	60
5.4 Recommendation for Future Research.....	61
REFERENCES.....	62



LIST OF TABLES

Table 4.1 Descriptive Analysis Table.....	46
Table 4.2: Stationarity Test results	48
Table 4.3: Serial Correlation Result for all the Objectives.....	49
Table 4.4: Pearson Correlation Coefficients.....	49
Table 4.5. Regression Summary Output.....	54
Table 4.6 Regression Coefficient Table.....	55



LIST OF FIGURES

Figure 2.1 Agency Theory	25
Figure 2.2 Stakeholder Theory	27
Figure 2.3 Stewardship Theory	30
Figure 2.4 Conceptual Framework	34

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ACRONYMS

CAR: Capital Adequacy Ratio

CG: Corporate Governance

CEO: Chief Executive Officer

NED: Non-Executive Directors

ROE: Return on Equity

ROA: Return on Assets

VIF: Variance Inflation Factor



CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Good corporate governance is noted to be a pre-condition for the sustainability and economic growth of businesses (Sathyamoorthi et al 2017). According to Oman and Blume (2015) good corporate governance system facilitates and serves as the solution in solving issues related to shareholders, stakeholders and management. Amba (2014) opines that effective corporate governance is one which requires ensuring that mechanisms where firms do have respects and seeks the interest of its shareholders. Such governance again requires that actors act in a responsible and efficient manner in ensuring that wealth is evenly distributed in the firm.

Bhardwaj (2014) on his part identifies the following traits as traits of good governance practice in the financial sector, these includes due process, transparency, data integrity and disclosure requirement. Al-ahdal et al.(2018) argues that corporate governance systems must ensure stern and competent management practices over the affairs of the firm in order to ensure the interest of both the firm and minority shareholders. Claessens (2015) defines corporate governance as the means with which a company is governed. This according to Claessens includes setting up of systems, processes, procedures and laws to regulate the activities and operations of a firm.

Krehmeyer (2016) similarly explains that corporate governance provides the needed guidelines on how a firm is to be directed and controlled. Al-Matari (2014) explains further by defining corporate governance as the medium with which parties of a firm

show interest in its wellbeing. Such interest ensures that resources are efficiently used while sustaining the business in order to generate the needed wealth for its owners.

Inter Raoues (2018) outlines the four main principles of corporate governance. According to them, corporate governance exists to ensure that there is responsibility, transparency, fairness and accountability of the financial and corporate reporting of organizations to its stakeholders by all interested parties.

Amba (2014) in his research links corporate governance to organization performance. According to Amba (2014), the rise of corporate governance to the forefront is as a result of the poor corporate governance practices in some organizations across the globe.

The studies of Amba (2014) have also been confirmed by other researchers such as (Abdallah et al., 2017, Alahdal and Prusty, 2016 and Bhardwaj and Rao, 2014). Babatunde and Akeju (2016) in a similar research concluded that corporate governance mechanism enhances the profitability of firms in Nigeria. Narwal and Jindal (2015) also found that, effective corporate governance systems do not only ensure economic growth but also enhances the confidence of other investors and stakeholders to the business.

Alem (2015) posits that, an effective corporate governance mechanism ensures the proper functioning of all the actors of firms making the end results profitable.

Al-ahdal (2018), defines firms performance as a measure of the effectiveness of how an organization runs its internal and external operations. Abdullah and Ismail (2017) also agreed that the performance of a firm is noticeably seen on its financial statements reported by the firm, the success of the firm is measured according to

Abdullah and Ismail (2017) by some financial tools and techniques which enable stakeholders know the internal performance of the firm. In a research carried on by (Zabri et al., 2016) on the practise of corporate governance on 100 listed companies in Malaysia on firm performance, using variables such as board size and independence on Return on Assets (ROA) and Return on Equity (ROE), the results showed that board size had a significantly weak relationship with ROA and no relationship at all with ROE while the other findings proved according to (Zabri et al., 2016) of no relationship between board independence and performance of the firm.

Meanwhile a study conducted by Aggarwal (2014) on 20 listed Indian firms showed a positive relationship between corporate governance practices and firm performance.

Gupta and Sharma (2014) however concluded that the practices of corporate governance have limited share prices and the financial performance of firms after sampling various companies in India and South Korea. The findings of Gupta and Sharma (2014) has been confirmed by Sayilir (2014) who after exploring firm value and corporate governance practices in Turkey conceded that there is no evidence that better corporate governance is closely related to firm performance and value.

1.2 Problem Statement

The quality of corporate governance according to Khan (2017) can be measured generally on the basis of disclosures, transparency, having a bond and connection with both shareholders and other stakeholders, as well as formulating needful policies. Zabri et al (2016) observes that in ensuring and abiding with policies, the onus again lies on the board and managements to as well follow compliance set by the regulator as well as other related bodies. Wang and Deng (2016) opine that good corporate

governance practices do impact positively on firm performance. According to them, it strengthens as well as guides such firms against going bankrupt.

Agreeing to the stands of Wang and Deng, Al-ahdal et al (2018) observed that good corporate governance practises ensures the stability as well as sustained growth of businesses. In a related research conducted by (Muth and Donaldson, 2018) apart from the independence of the audit committee which had a significant relationship with performance using accounting measure of return on assets and on capital employed all others factors employed including board size, number of board meetings held and the size of the firm negatively affected the performance of the firm. Yahya et al (2017) also concluded to a negative relationship between gender diversity and firm performance. Rose (2017) in a similar research provided evidences of no relationship between corporate governance diversity and firm performance.

With all these diversity in research in the developed countries, little and scanty research have been carried on this research topic in the developing countries including Ghana. Most researchers have concentrated on board diversity on performances of firms rather than on the financial sectors. In a research carried on by Osei (2015) on board diversity and its influences on firm performance, she concluded of a negative relationship between board diversity and firms' performance of listed firms in Ghana, while Amidu and Abor (2013) rather found a positive relationship between corporate governance practices in the pharmaceutical industry in Ghana.

The differences in the stands of the few researchers and the scanty nature of data on the impact of corporate governance practices have necessitated the need for the researcher to research into it.

1.3 Objectives of the Study

The main objective for the study is to examine the impact of corporate governance on the performance of listed financial institutions in Ghana. However, there are other objectives sets for the work and these include:

1. Examine the relationship between board size and performance of listed banks in Ghana.
2. Evaluate the effect of board remunerations on the performance of listed banks in Ghana.
3. Examine the association between board gender diversity and performance of listed banks in Ghana.
4. Evaluate the effect of board independence on listed banks performance in Ghana.

1.4 Research Questions

The following research questions will be posed by the researcher in order to help meet the research objectives. Below are the research questions;

1. What is the relationship between board size and performance of listed banks in Ghana?
2. What is the effect of board remunerations on the performance of listed banks in Ghana?
3. What is the association between board gender diversity and performance of listed banks in Ghana?
4. What is the effect of board independence on listed banks performance in Ghana?

1.5 Significance of the Study

The recent fall of some financial institutions in Ghana have partly been blamed on the lack of good corporate governance. These situations have therefore brought on the forefront the increased awareness of the corporate governance systems across the country. This Study will help broaden the knowledge and understanding of the corporate governance system in the financial sector.

The board of directors, management and the entire staff of listed financial institutions and other financial institutions will find this piece of immense benefits as it seeks to expose the loop holes in the corporate governance structure of listed financial institutions. Management will thus be able to formulate stronger policies in order to ensuring a strong and effective governance system.

This Study will add to the body of knowledge on corporate governance issues and organizational performance. Both students and academicians wanting to broaden their knowledge in corporate governance issues will find this work of an importance.

Shareholders and investors will find this piece of an immense interest as it seeks to expose the good and bad governance systems being practiced by banks in the country.

1.6 Scope of the Study

The study examines the impact of corporate governance on the performance of financial institutions in Ghana. The researcher however narrowed the scope to only listed financial institutions. This is because of the access to their financial statements which is a requirement of all listed companies and also because of the tenacity and

vibrancy of listed financial institutions in Ghana with shareholders across the length and breadth of the country.

1.7 Limitation of the study

The research work will be limited by some factors; these factors include time and financial constraint. The busy schedule at the work place in addition to the researcher work is likely to result in some constraints also financial constraints to a little effect will affect the scope of the researcher as the researcher could have researched on all financial institutions in Ghana but for limited finances. However, notwithstanding these projected constraints, frantic efforts will be made by the researcher in ensuring that the results and findings obtained represents the reality on the ground as far as the impact of corporate governance on performance is to financial institutions in Ghana.

1.8 Organization of the Study

The study was structured into five chapters including chapter one which covered the background, problem statement, research objectives and questions, significance and organization of the study. Chapter two provided the extant literature on the key concepts and issues on corporate governance. Chapter three described in detail the data and methodology that was adopted for the study. In particular, the statistical techniques used were addressed in the relevant sub-sections of this chapter. Chapter four of the study reported the empirical results as well as the descriptive statistics of the study. Chapter five presented the summary of the findings, conclusions and possible policy implications for the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The general objective of this chapter is to examine the impact of corporate governance practices on the performance of listed financial institutions in Ghana. In this regard, the chapter considers the meaning of corporate governance and its benefits globally, followed by theoretical review. This is then followed by the empirical review in section 2.4. The conceptual framework in section 2.5. The overview of the Banking Industry in Ghana in section 2.6 and finally provides a chapter summary in section 2.7.

2.2 Conceptual Review

2.2.1 Corporate Governance

The definition of the corporate governance can easily be carved from the name itself, the way corporate organizations are governed. Kenton (2018) defines a corporate organization as an organization with a legal entity which is distinct and totally separated from its owners. Kenton (2018) further expatiates that some of the attributes of a corporation is that, although it is a body, it may enter and pursue into contracts, sue and be sued as well as borrowing. It can also employ employees, acquire assets as well as pay taxes. In fact it enjoys similar right as an individual possess.

Coyle (2003) explains that a corporation's most important aspect is a limited liability which implies that shareholders may enjoy some of the businesses profit through the paying of dividend but are not in any position liable for the company's debts.

Chen (2019) defines corporate governance as the process by which a firm is directed and controlled. This according to (Chen 2019), this form of governance involves a system of rules and practices used by the management in ensuring that all the numerous shareholders who are the financiers and owners of the entity have their interest balances.

Mordelet (2010) on the other hand defines corporate governance not only as a way an entity is governed and controlled but also how the board of directors does and sets the company values in ensuring a profitable and sustainable firm. According to (Mordelet 2010) the role of the shareholders is to appoint both directors and auditors who will spearhead the affairs of the firm on their stead. He further stressed that, the duty of these directors includes providing leadership, supervising management as well as reporting back to management on their stewardship. The organization for Economic Corporation and Development OECD (2001) in their definition of corporate governance embodied both the private and corporate institutions as well as the laws and regulations and generally accepted business practices which is used in governing the relationship between management, shareholders and entrepreneurs all on one hand.

Chen (2019) states that in ensuring that corporate governance works in firms, many legal bodies are set to foresee and regulate the activities even of the board of directors as well as the management. In Ghana, the Security and Exchange Commission (SEC) is the body mandated by law to set the guidelines on corporate governance best

practices as well as ensuring that firms comply with these guidelines. The Commission therefore has the right to revoke the licences of the firm should it abuse the laws and guidelines governing the governance of its structure.

2.2.2 The Importance and benefits of Corporate Governance

The introduction and enforcement of the corporate governance system has brought enormous benefits to not only shareholders but to other stakeholders. This section seeks to outline the importance and benefits of corporate governance to stakeholders;

Akrani (2011) on dealing with the importance of corporate governance states that the changes in the ownership structure have cumulated pressure to many institutions thereby creating an effective control over management.

The Finance Agenda (2016) opines that although corporate governance had remained as a compliance issue, there should be an assurance from governance of corporation to employees, investors and consumers that they stand to benefit from the established firm. The Finance Agenda, (2016) is of the opinion that there is now an increasingly view from business experts, analysts and business leaders that corporations operating under a corporate governance structure as part of a good and vibrant business.

According to Tafara and Peterson (2016) another importance of the corporate governance structure is its ability to lower costs as a result of monitoring of costs by the board of directors and the audit committee. They further stressed that with the corporate governance structure, organizations are able to lower the cost associated with investor due diligence and consequently, reduces the cost otherwise associated with corporate governance measures.

Kompanek (2016) in his study on companies in Peru revealed that a company at Peru managed to expand its corporate governance and their CEO estimates resulted in an additional 20% increase in cost when conducting a market valuation. In the process, he concluded that improved corporate governance further reduced the cost of capital while drawing and bringing on board new shareholders while retaining the old shareholders.

Ashe-Edmund (2016) insists that a company's reputation can be boosted on the corporate governance structure if such company broadcast its corporate governance policies and detail. The details according to Ashe – Edmund includes how they work, and the conducive environment with which they work. Gregory and Austin (2014) also stressed that such organizations operating under good corporate governance model is able to providing employment, honour its tax obligations, provides service as well as make purchases while supporting social and charitable programs. They however called on management to maintain the integrity of the firm in their quest to increasing the value of the shareholder and other stakeholders; they suggested that in order for the board to communicate integrity, it must enhance its continuous reporting both internally and externally.

A good corporate governance structure helps the economy to grow and remain stable. According to Nicolas and Batisto (2007), a good governance structure is easily noticeable and often visible when both the economy and the market are growing. According to them, good governance also helps firms to withstand severe consequences especially in an economic downturn. This was evident during the late 2000's global financial meltdown (Nicolas & Batista, 2007).

The Best-practice.com (2016) outlines the following as the importance of a good corporate governance system. The benefits stated does not include the benefits associated with shareholders only but also to the economy and other stakeholders of the firm. Below are some of the benefits outlined;

- i. Excellent management: - good governance structure ensures that management are not selfish with their interest alone I taking decision but also that of the other stakeholders. This has enhanced transparency due also to the monitoring duty of the board of the firms resulting in an excellent management system.
- ii. High level of transparency: - the corporate governance system encourages firms to be highly transparent about its business.
- iii. Stakeholder benefits: - companies operating under this governance structure tend to act in the best of the interest of its stakeholders.
- iv. Reputation and recognition: - good governance allows companies to gain the trust of the investors, customers and the community at large.
- v. Reduced wastage: - the system helps in reducing wastage of the firms resources, employees are trained to follow good ethical practices which helps in avoiding wastage.
- vi. Reduced risks, mismanagement and corruption: - transparency in the management practices of good corporate governance of firms has helped reduced the amount of risks of corruption and mismanagement.
- vii. Economic benefit: - A firm operating a good governance practice is likely to achieve the trust of the community which will result in its success in the long run.

2.2.3. The Components of Effective Corporate Governance

Corporate governance practices across the globe vary from one country to the other. Gregory and Simms (2009) observe that such variations are as a result differences in ownership structure as well as the different societal values, business and competitive conditions. They further stated that other causes of these variations across the globe can lie in the strength and enforceability of contracts, shareholders, and debt holders as well as the development of the countries legal requirements and procedures.

Chen (2019) insists that what has made the developed country more advanced in corporate governance practice than in most developing countries are the elements of effectiveness of corporate governance systems in those countries. These includes a well-positioned and regulated securities markets; regulations promulgated at ensuring recognition for the shareholder, enforcement mechanisms which protects the rights of shareholders; laws promulgated to protect against fraud on investors; and the preparedness of the judiciary to deal with courts issues arising out of one's action of not obeying the law on corporate governance.

Greenspan (2009) explains that emerging countries around the globe are not developing their legal and regulatory systems which are gradually making corporate governance an effective one in emerging countries. Greenspan however suggests that the legal framework concerning for an effective corporate governance system needs to be further developed with a vibrant stock exchange, registration of share ownership, audit improvement across corporations, ensuring that accounting standards are followed to the latter as well as enacting laws for the protection of the minority shareholder interest.

2.2.4 Areas for an Effective Corporate Governance Practices.

Millstein (2008) states that for corporate governance to be effective and operational it should be reliant on investors, boards and managements for its successful implementation. Millstein (2008) further noted that the raising of capital for expansion among corporations is of an essential nature, he therefore outlined four main important areas needed by corporate governance to be effective in attracting capital.

a. Fairness: - according to Millstein (2008), fairness is the first most important traits in helping raise capital for an effective run of the corporate governance system. By ensuring that both shareholders and other investors are duly protected, goes a long way in ensuring the forcibility of contracts made by the providers of capital.

b. Transparency:- when an organisation is transparent by the timely disclosure of adequate, clear and comparable information to all stakeholders, it boosts the confidence of other investors in investing and helping the firm raise enough capital for growth and expansion.

c. Accountability: - when a firm is accountable on a timely basis to its shareholders, it raises the interest and awareness of others to also invest into that firm. Again when a firm is able to clarifying its governance roles and responsibilities while the board of directors ensures that the interest of both shareholders and the management is being met, it boosts the confidence of other investors and stakeholders.

d. Responsibility: - when a firm ensures compliance with all the necessary laws and regulations in the society in which it operates, it draws other investors' attention and drives them to invest into that firm.

In affirming Millstein (2008) the four important effective areas of attracting capital to a corporation, the OECD in (2009) in its recommendations to promoting and articulating the four core standards, the task team tasked to ensuring Millstein's report further echoed and explained into details the principles already articulated by Millein. They further explained the following;

i. Fairness

The task force in relation to fairness developed two separate principles. The first principle states that the shareholder should be protected by the corporate governance framework by formulating laws, procedures as well as practices to ensure the shareholder does not lose his or her investments. The principle again talks about the election of directors and the approval of major mergers or acquisitions by the shareholders.

The second principle under fairness as stated by the taskforce is that there should be an equitable governance framework where even the minority of the shareholder can seek redress. This implies that, there should be the formulation and enactment of laws which protects the interest of the shareholder.

ii. Responsibility

Under responsibility, the taskforce conferred that there should be the encouragement of active corporation among stakeholders in ensuring that wealth is created. Again, the taskforce recommended that, the governance framework should recognize the rights of stakeholders as established by law. By this, the taskforce implies that, firms must abide by the laws and regulations of their countries of operation. The taskforce further employ corporations to be more responsible and ethical in dealing with its stakeholders especially its employees. Finally under the responsibility mandate, the

task force encouraged corporations operating within the community to fully embrace and embark of corporate social responsibility, they admonished corporations to venture into social intervention projects for the community they work, medical outreaches, supporting education financially, providing pension and retirements benefits as well as formulating and adopting environmentally friendly technologies so as not to endanger the community.

iii. Transparency

This principle as articulated by the taskforce states that there should be the timely and accurate disclosure of information by the corporate governance framework to its stakeholders. This information should disclose to them all material matters including ownership, performance, financial situation as well as the governance of the firm. The team also explained further that, such information should be prepared with the internationally accepted accounting and auditing standards which is subject to the auditing of an independent auditor on an annual basis. These processes assure both investors and shareholders of the transparency in the dealings of the company. Likewise other information of the company such as share ownership, the right of voting, identity of board members, key executives and executive compensation is also a critical component of transparency.

iv. Accountability

The accountability principle calls for an effective monitoring of management as a core duty of the board of directors. It also ensures that the firm is guarded strategically. Accountability also implies that the board of directors hold it as a legal duty of monitoring managements on behalf of shareholders. This is because these appointed and voted for director's holds a fiduciary relationship and commitment to the shareholders and the company, this fiduciary relationship also implies that they

eschew off their selfish interest while acting diligently with fully backed information to act upon.

The task force recommended that in order for the board to be able to play their roles effectively, they should meet often, at least once every three months and if possible more often, they further explained that, for non-executive directors to be effective and to ensure that independent oversight has meaning, they must have access to important information in advance of board meetings.

They again called for stronger committees especially with the audit committee in detailing and informing the board on important and pertinent issues.

2.2.5 The Corporate Governance Guidelines in Ghana

The Securities and Exchange Commission (SEC) have been mandated by law to regulate and regularize the affairs of corporate government systems in Ghana. In 2010, the Securities and Exchange Commission of Ghana published the Ghana's Corporate Governance Guidelines in relations to best practices for the firms who are under their jurisdiction.

The code as published by the SEC covers all corporate entities which are seen as stock exchanges, advisors to investments, management of firms, trustees, operators, custodians of trust and mutual funds as well as all publicly traded securities.

The disadvantage of this guideline is that it has not yet been embodied into our laws hence failure to comply might not end in a legal tussle with the commission, however, these guidelines exists to provide both benchmarks and directions for companies in corporate governance issues.

As part of the policy guideline, the SEC proposed the following elements of good corporate governance practices and these are; Rights of the Shareholders, disclosure and being transparent, board responsibility, equitable treatment of all shareholders, as well as allowing shareholders in taking up roles in the running of the firms affairs.

2.2.6 Mechanisms of Corporate Governance Structure

Denis (2001) suggests in his work that the need for a mechanism in steering the affairs of the firm so as to bridge the gap between management interest and that of shareholders is very importance and form the basis of corporate governance system. Some of these mechanisms which allows for corporate governance system to thrive are;

- a. Separation of CEO and Chairman position
- b. Board Size
- c. Board Composition
- d. Corporate reporting

2.2.6.1 Separation of CEO and Chairman

Cadbury (2002) is of the opinion that the two top positions in a firm should in no way be occupied by a single individual. This is because of the abuse of power likely to be played by such individual.

Rechner and Dalton (2001) also called for the separation of these two topmost positions namely the board chair and the chief executive officer position. They further explained that the duty of the board is mainly to provide direction, monitor and supervisor management while management seeks to work towards the directions of the board hence one person playing a lead role in both sense is likely to wield so

much power and take decisions which might be detrimental to the progress of the firm. Dalton (1998) explains that the difference in roles between the board chair and the CEO is firmly rooted in the agency theory

Lam and Lee (2008) believes firmly that a separation of these two position will likely results to a better accountability as the CEO together with his management can be fully assessed. Suryanarayana (2005) however is of the opinion that the duality of the CEO and the Board Chair enhances the fortunes of the firm. According to her, there is a strengthened leadership whenever the position of the CEO and Board Chairman is being held by a single individual, this idea is firmly agreed upon by Dehaene, De Vuyst and Ooghe (2001) who further argued that there is a significant improvement return on assets of the firm in a combined leadership and hence advocated for one in a corporate governance system.

An entirely different opinion being held by Coles and Jarrell (1997) claims that there exists no individual best leadership structure. This according to them is as a result of the cost and benefits associated with both style be it the duality leadership or the single leadership.

2.2.6.2 Board Size

The size of the board of directors of firms has been heavily argued on over the years, researchers and policy analysts have over the years tried to examine the best number required on a board for an effective and cost reductive running of businesses. Jensen (2003) believes that there should be a restriction on the size of the board; they argued that a large size is likely to cause some of the board members to be inactive and unproductive. A small sized board is also likely to lack the diversity of knowledge required to cause growth in the firms operations. The UK combined code therefore

calls for a sizable number of personnel who can effectively manage the monitoring of management while bridging the gap between management and shareholders.

2.2.6.3 Board Composition

The composition of the board tells of the manner in which board members are formed. This involves the blending of both executive and non-executive members. According to the Singaporean corporate governance code (2012), board composition plays an important role in the progress and growth of the business, the code further directs for a strong elements devoid of domineering by no person or a small group. Although the duty of the executive board members bring unto the board professional and quality experiences but they are not in a well-placed position to monitor and discipline the CEO when he falters simply because they report to him. Daily and Dalton (2003), they therefore call for more non-executive board members who are independent and are expected to bring on board an independent view on matters.

2.2.6.4 Board Committees

The board committee forms an essential part of the board activities. It ensures that the objectives of the board in its small segments are attended to by committee members. Harrison (1999) explains that, the board committees play such important role such as rendering a non-bias supervisory and consultancy services to the firm. This is to ensure that the interest of the shareholder that is maximizing their share value is adhered to. It is the duty of the board to set up committees to look into certain aspects of the firm. These committees after their meetings make recommendations to the board for approval and other directions. It therefore puts the board accountable for every decision and actions it takes based on the committee's recommendations.

2.2.6.5 Director Remuneration

Director's remuneration stands as a pivot in corporate governance code. According to Murphy (2009) there should be an attractive package given to board members and senior management members in order to attract them to the job. He however stresses this should include their severance packages but such severance and remuneration should be in line with the medium to long term interest of the firm. Jensen and Meckling (2006) posited that there is a positive relationship between high remunerations for board members and performance of firms.

2.2.6.6 Corporate Reporting and Disclosures

Investors and other stakeholders find the annual financial reports of firms to be the most important documents from their firms; it is to them the most valuable input for investments decisions according to ACCR report (2013). Zaire and Letza (2004) explains that the corporate reporting should be inclusive of both the financial and non-financial information about the firm. Healey and Palepu (2001) talks about the importance of corporate reporting, according to them, the corporate reporting is the means through which the board of directors holds accountability to shareholders. It is also a means of making available information to all interested parties in the organization.

2.3 Theoretical Review

2.3.1 Corporate Governance Theories.

In researching on corporate governance issues, the researcher will review the various theories associated with corporate governance. These includes; agency theory,

stakeholders and resource dependency theory as well as stewardship theory, others includes social contract theory legitimacy theory and finally political theory.

2.3.1.1 Agency Theory

The Agency theory dates back to 1932 when Berla and Means in their research tried to separate the ownership of corporations from the control of ownership which resulted in the creation of the principal – agent relationship. In their research, Berla and Means regarded corporate governance a mechanism in reducing the issues arising from the principal – agent relationship by establishing a board of directors whose duty is to serve as a monitoring device. Mallin (2004) explained further that, agents are the managers, principals are the owners while the monitoring mechanism is the board of directors. Daily, Dalton and Cannella (2003) on their part classified into two main factor literatures related to corporate governance. According to them, the first factor involves the reduction of the corporation into two participants who are the managers and shareholders. According to them, the interest of these two participants is assumed to be clear and consistent. A second notion is that humans are self-interested and disinclined to sacrifice their personal interests for the interests of the others.

Jensen and Meckling (ed., 2006) portrays firms to be a nexus of contracts involving various factors of production thereby resulting in the agency theory. Deegan (2004) explained further that, the main intent of these contracts are that the parties involved are motivated by the maximization of the organizational value as well as reducing associated agency cost. They do this by adopting prudent and efficient accounting methods. Daily and Dalton (2003) describes the agency role of directors as a governance function where the board of directors seeks to serving the shareholders.

According to (Daily and Dalton, 2003), board of directors do this by ratifying managements decisions why the implementation is closely monitored by the board.

The primary responsibility in an agency theory required of the board of directors towards the shareholder is to ensure the profitability and maximization of the share value (Kiel & Nicholson, 2003 ;). Bhimani (2008) posited in his work that, the agent is likely to succumb to self interest in an agency theory, the author further explained that the agent is further likely to be opportunistic while falling short of the congruence between the aspiration and pursuits of both the principal and agent, the author further stated that in such set back situations, the agency theory seeks to solve the issue of separation of ownership and control.

As part of the control measures, (Clark 2004) believes that agents of corporations mostly focuses on high end projects which promises higher returns and a fixed wage leaving out incentive packages but rather than investing in a fluctuating incentive payments. Clark (2004) is therefore of the opinion that in such instances, the board have to resort to the positivist approach where the agent is controlled by the principal made rules which aims at maximizing the shareholders worth.

Jensen and Meckling (2009) on their part discusses the separation of ownership between management and shareholders, according to them, such separation can lead to such decisions taking by managers which might not necessarily lead to profitability but rather enriching the managers themselves rather than the shareholder, this enrichment is likely to be as a result of either adopting to a specific knowledge and expertise. Jensen and Meckling are therefore of the opinion that the designing of a monitoring mechanism is therefore important as ensuring that rather enriching the managers the shareholders' value is rather increased.

Shleifer and Vishny (2007) posits that a monitoring design in curbing this menace of agents cost can be attached to the accounting system where there is the reduction to agents cost associated with an effective contracts which is tied to effective accounting system. Meckling (2006) explains that such monitoring in trying to get the agents into cost reduction might results into certain costs such as monitoring and discipline cost, but these costs are better according to Meckling than the agents deliberating using accounting systems in inflating profitability in order to get a higher incentive.

Agency cost as defined by (Jensen and Meckling, 2006) is the sum incurred by the principal in monitoring the aberrant activities of the agent, it again involves the test of ensuring that decisions taking by the agents is not likely to cause harm to shareholders value. Spanos (2005) on his part insists that the problem associated with agency depends largely on the ownership characteristics of each country. Spanos explained that in countries where there is a separation of the management structure, in situations where the shareholders are disappointed with the performance of the agent, shareholders use the exit options which mostly resorts to the reduction of share price while in countries where the ownership structure of corporations is heavily concentrated with dominant shareholders, shareholders tends to dictate to both managers and minority shareholder holders in order to gain private control benefits.

Smallman (2004) insists that the agency model seeks to ensure that individuals have access to a total complete information and significant knowledge on whether or not the governance activities conform to their preference. The figure below depicts the definition of interest as stated by Abdulla (2009) on where the individual interest lies in an agency theory as well as how monitoring procedures help curbs or reduces it.

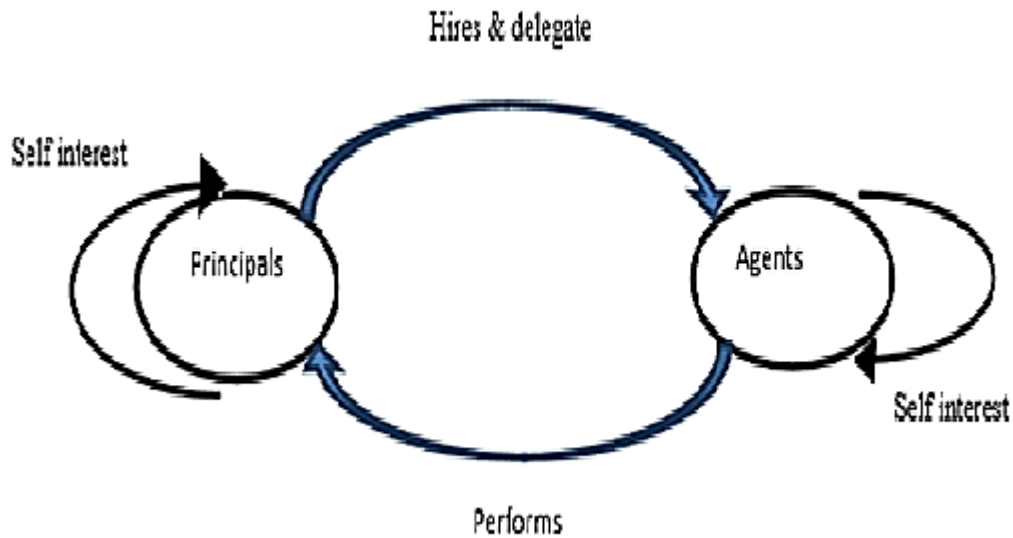


Figure 2.1 Agency Theory

2.3.1.2 Stakeholder Theory

Coleman (2008) is of the opinion that the stakeholder theory best identifies and explains the roles of corporate governance than the agency theory. According to Coleman, the stakeholder theory however identifies the stakeholder as the single interest group of a corporate entity, this situation has caused many researchers in deeming this theory as narrow. Abrams (1951) defined stakeholder theory as a theory that concerns itself with issues of stakeholders in an institution. In defining stakeholder theory, Watson and Head (2007) explains that, the stakeholder theory considers the needs of the stakeholders of the organization, having realize their differences, the organization there needs to tailor in a way to satisfying the diverse needs of the stakeholders.

Firms operating using the stakeholder theory have a fiduciary duty of first maximizing the needs and returns of investors. Most companies now have designed an input attitude, where investors the inputs of shareholders, employers, customers and

suppliers are considered. It therefore puts this model ahead into addressing the needs of both employers, investors, customers and suppliers. Puxty (2009) however states that in recent times, companies do not only seek the interest of its stakeholders but also the community in which they reside, the company therefore have an obligation to ensuring the needs of the community as well. Freeman (2004) explains that economic value is created by people who voluntarily come together and cooperate to improve everyone's position.

However, many other researchers have criticized the stakeholder theory. Jensen (2001) on his part criticizes the Stakeholder theory as the theory only assumes for a single-valued objective. Jensen further explains that, it is practically wrong for stakeholders to value the gains of the firm only on performance of a firm, he further explained that there are other key issues such as flow of information within the ranks of the institution, interpersonal relations, the conducive working environment among others as a critical issues that should be considered in addition to the performance of the firm.

Sanda (2005) also criticizes the model that issues resulting from empirical testing have showed in many cases as being limited in relevance while Rodriguez (2002) on his part tries to differentiate among the stakeholder types, Rodriguez classifies stakeholder model into three (3) main types namely the consubstantial, contractual and contextual stakeholders. He explained that as; consubstantial stakeholders are those types of stakeholders who are essential for the existence and the daily running of the business entity. These include investors, shareholders, employees and strategic partners. Contractual stakeholders on the other hand are those stakeholders who have contracts or contractual agreement with the firm, they include suppliers, customers,

financial institutions as well as contractors and other professionals other than the firms' staff whose assistance is of great importance to the firm.

The Contextual stakeholders are the stakeholders who represent the social and natural systems in the business operating area. Such stakeholders play a fundamental role in obtaining business credibility and, ultimately, the acceptance of their activities. All of these stakeholders according to (Rajan and Zingales, 1998) must have their interest safeguarded by the firm in a general value creation.

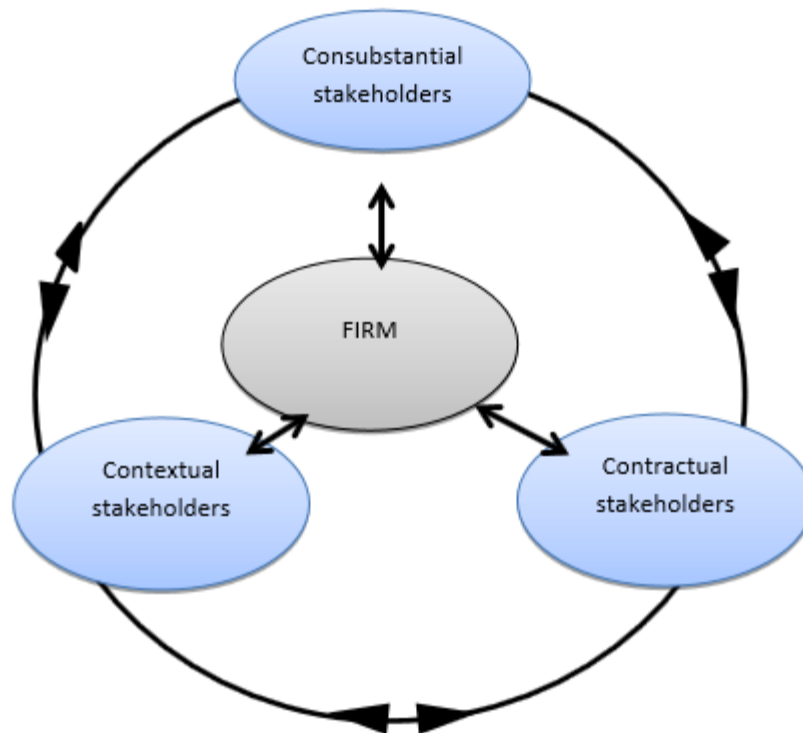


Figure 2.2 Stakeholder Theory

2.3.1.3 Legitimacy Theory

Suchman (2005) defines legitimacy theory as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially

constructed systems of norms, values, beliefs and definitions”. The legitimacy theory is also another important theory of the corporate governance model. It has similarities with social contracts but the difference is that legitimate theory is mostly based on the absorption that, there exist social contracts between the society and the firm. According to (Deegan 2004), because the society provides the firm the authority to own and make use of its natural resource, it thus puts the firm in a position to give back to the interest of the society. He further stressed that a firm obtains permission to operate from the society and is therefore ultimately accountable to the society for how it operates and what it does.

Ramanathan (2006) in his work opines that, traditionally most stakeholders only viewed the performance of the firm in its assessment on the profitability in defining an increase in the value of the shareholders worth, however, under the legitimacy theory, profit is viewed as an all-inclusive measure of organizational legitimacy. This includes the rights of the public and not only the investor while emphasis is also placed much on the interest of the society in which the firm operates. Deegan (2004) writes that failure of the firm in complying with the interest of the public is deemed punishable and as such, these may result in sanctions being imposed in the form of restrictions on the firm's operations, resources and demand for its products.

2.3.1.4 Political Theory

Another important theory which underpins corporate governance structure is the political theory. This kind of approach develops the voting support from shareholders. Therefore having a political influence within the shareholder stake will enable one to directly stem the affairs of the firm by being a board member.

Hawley and Williams (2006) in their work stresses that, the public interest is much reserved as the government participates in corporate decision making. Such decision taken by the government influences the governance developments. Due to the collapse of several other companies which have hurt the people and economies of countries nationwide, the government now takes very much of a keen interest in the running of the affairs of organizations. This they do by formulating laws and ensuring that firms go according to the laid down laws and regulations. Pound (2003) insists that, the political model of corporate governance have contributed significantly on governance developments and as a result of this development, the entrance of politics into the governance structure or firms' mechanism is made firm.

2.3.1.5 Stewardship Theory

Donaldson and Davis propounded the stewardship theory in 1991 after they suggested that appointed executives are to be considered as good stewards who are employed or appointed to be forging solely for the interest of the shareholder. It therefore puts the stewardship theory in direct contrast to that of the agency theory. Per the works of (Davis, Schoorman and Donaldson, 2007), the stewardship theory expects the activities of appointed directors acting as stewards to be aligned towards the firm's goals because they are acting in the firm's best interest. In forming the fundamentals of stewardship, formulators of the theory formulated it on socio psychological where more focus is thrown on the behaviour of executives. Smallman (2004) explains further that, in situations where the shareholders wealth is maximized, the steward's utilities are maximised too.

He further stated that, it is the duty of the stewards to balance the tensions between the different beneficiaries and other interested groupings.

Davis, Schoorman & Donaldson (2007) stresses that, there is a strong relationship between the success of the firm and the managers of the firm, it is therefore the duty of the steward to protect and maximize the value of the shareholder. A steward whose contribution increases the shareholders worth is deemed in high esteem and considered an asset once the interest of the shareholder is met. Clark (2004) explains further that the stewardship theory takes a more relaxed approach on the separation of the roles of both the Chairman of the board and the Chief Executive Officer so as not to have one person singularly handling those sensitive positions. The diagram below explains in pictorial diagram the meaning of the stewardship theory as proposed by Abdallah, (2009).

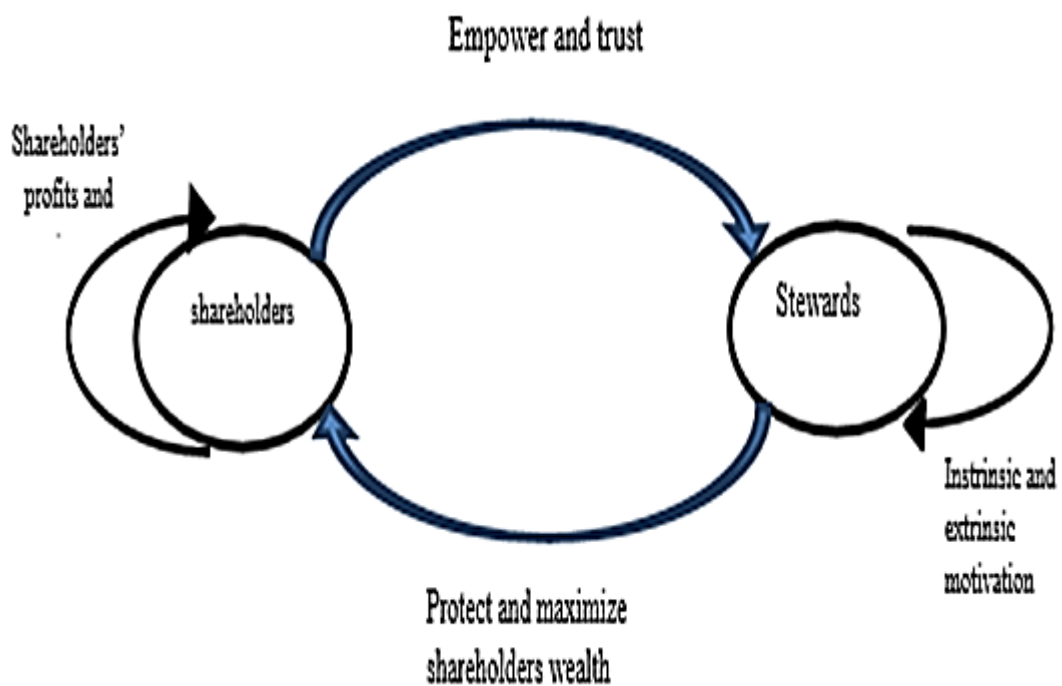


Figure 2.3 Stewardship Theory

2.4 Empirical Review

2.4.1 Empirical Studies on Corporate Governance

The significance of corporate governance on firm's performance has been well researched by other researchers across the globe, this section of the research seeks to examine some of the results from other countries and how it can be related to our research objectives.

In researching on the effects of corporate governance on firm performance, Siddiqui (2014) sampled 25 companies and set out three main concerns to be researched into. These concerns include legal organisms, the governance structure as well as the accounting and market performance of these 25 firms. Using the Tobin Q formula in the measurement of the firms' performance, the researcher concluded that the market to book ratio is the fundamental value in establishing the relationship between corporate governance and firm's performance.

Using Return on Assets and Return on Equity as the main variables, Gupta and Sharma (2014) conducted a study into the determination of the impact of corporate governance on business performance in Sri Lanka. Using 25 listed financial institutions in Sri Lanka, the duo concluded that there is a significant relationship between a firm performance and corporate governance, size of the board of directors as well as the audit committee size. The findings however revealed that, regular meetings are detrimental to the growth of the firm.

In finding the relationship between firm's performance and corporate governance in the United States of America, Kraft, Qu and Quatra (2013) sampled mergers of some non US corporations in adopting the US best practices on corporate governance. The researchers concluded based on empirical analysis there is growth on companies who

significantly adopted the US corporations best practices on corporate governance. Ikenna (2014) explored the effects of corporate governance on banks performance in Nigeria. Ikenna sampled 9 banks with data from their financial statements spanning from 2006 to 2010, he concluded that, corporate governance practices is negatively associated with the performance of banks in Nigeria.

Fooladi (2011) investigated the effects of corporate governance on performance measures on Malaysian firms. The researcher sampled 30 Malaysian firms with data sourced out from their 2007 financial years. The findings revealed that, the duality of CEO's negatively affects the performance of firms in Malaysia however other variables such as size of the board independence of the board as well as the ownership structure have little impact of firm's performance.

In demonstrating the link between operating performance of firms in China in relations to corporate governance showed that, firm's performance is positively associated with different measures of governance in China.

Lam and Lee (2008) concluded in their study that the only theories that gives a clear explanation to the duality of CEO's and performance is the agency and stewardship theories. The empirical analysis of the study found significant impact of duality on firm performance for non-family companies and vice versa.

In determining the impact of corporate governance variables on firms performance in India and South Korea, (Gupta and Sharma 2014) concluded with the study results that, corporate governance has limited effect on both the company's share prices as well as on their financial performance.

Danoshana and T. Ravivathani (2014) explored the area of studying the effects of corporate governance on business performance of 20 listed financial institutions in Sri

Lanka. Picking information from their annual financial statements from 2008 to 2012, the researchers used ROE and ROA as their key variables in defining business performance. In their final remark, the duo concerted that, corporate governance variables have a significant effects on business performance, there is also a positive relationship between business performance and the size of the board as well as the audit committee. However, frequent meetings of the board of directors have a negative effect on business performance.

Similar research which seek to examining the relationship among national culture, performance of firms and corporate governance by (Griffin, Kwow, Li and Shao 2014). They examined the relations by employing the new database acquired from the government between 2006 to 2011. They concluded of a negative relationship between transparent disclosures and protecting stakeholders with the minimum of shares based on the stock market.

2.5 Conceptual Framework

The conceptual framework is a pictorial view of the research work. Below is the researcher's pictorial view on the impact of corporate governance systems on the performance of listed financial institutions in Ghana. The figure 2.4 shows the conceptual framework of the entire research work. The financial performance which includes financial variables such as Return on Assets, Return on Equity and Earnings per share is the main dependent variables with board size, firm size, board remuneration, gender diversity and audit committee being the independent variables as seen in figure 2.4 below.

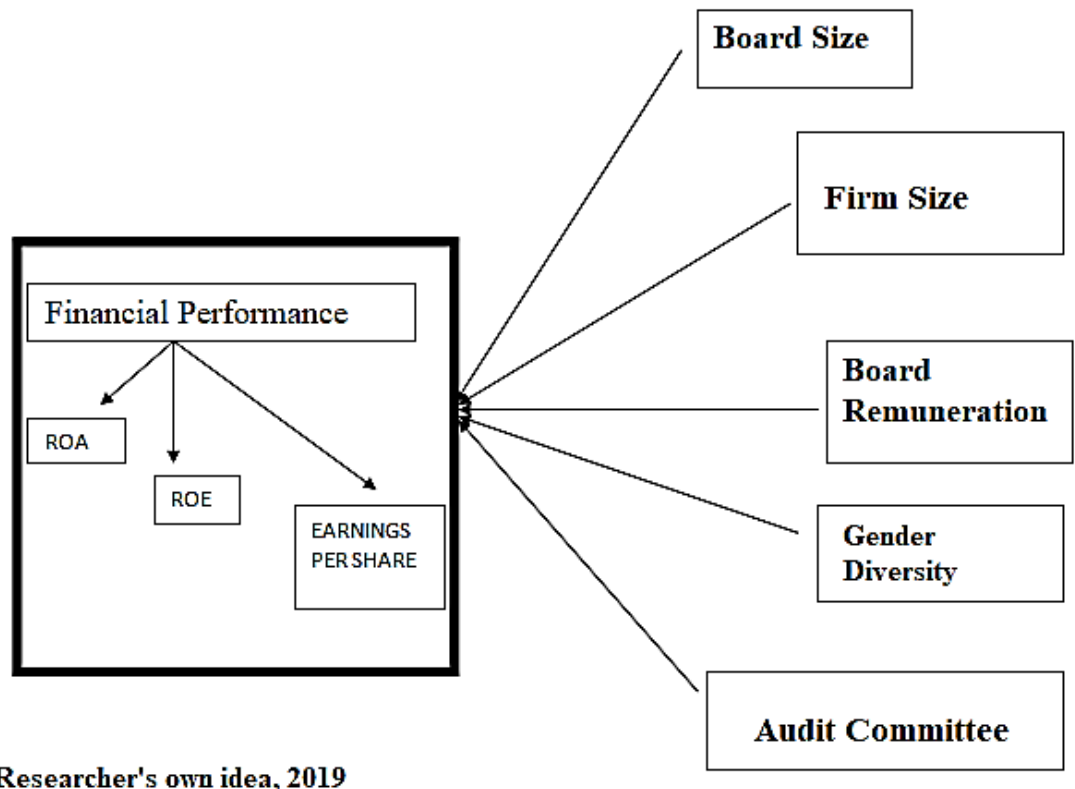


Figure 2.4 Conceptual Framework

2.6 Overview of Banking Industry in Ghana

The Banking industry in Ghana began in 1894 with the Bank for British West Africa now is known as Bank of Ghana (BOG). As in March 1957, the country celebrated the end of British rule as a result many banks were established (Bank of Ghana 2010). As of today, there are 26 depository banks that are operating with endless possibilities of the services. As part of its policies, the Central Bank has given the permission for the establishment of foreign banks in Ghana. Consequently, the banking industry has experienced the arrival of a large number of foreign banks. The main objective for implementing this policy is to support the growth of a strong financial system (Price Waterhouse, 2008). The Ghana banking industry has experienced rapid changes

which are attributed to technological transformation and the increase in competition between the liberalized financial industry and the Non-bank financial sector.

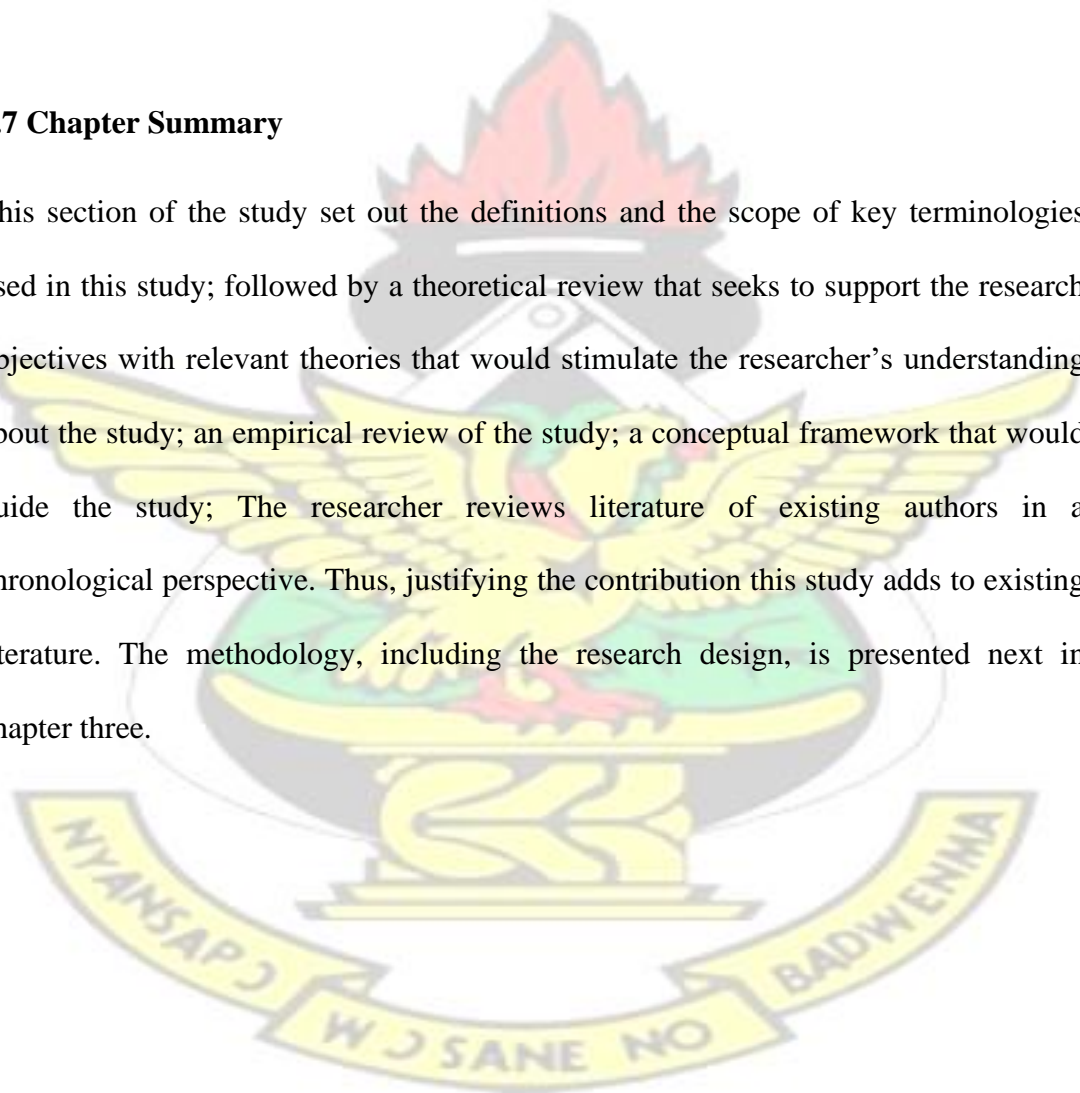
The banking industry has experienced rigorous competition in the past due to provision of limited services by Commercial, Development and Merchant banks which resulted in low profits. The competitive nature of the industry gave rise to the creation of universal banks as all the banks are presently providing a broad range of similar services in order to increase their market share in the industry. Due to technological innovation, it can be said that the services provided by the banking industry are not exhaustive. The industry still has the potential to develop more innovative services in order to increase its revenue generation avenues (Paul et al, 2006).

Difficulties in the financial sector such as high interest rates and liquidity problems in the past lead to structural and economic reforms in the financial sector. In 1987, the central bank introduces a restructuring and transformation program known as Financial Sector Adjustment Program (FINSAP) to improve the deterioration financial performance. The FINSAP financial reform were carried out in phases with FINSAP 1, 2, 3 and the major objective were to review the legal regulatory environment and adjust the existing banking acts, to restructure the banking sector to make them viable and efficient and to revitalize the financial sector by creating new institution (Sowa, 2003). Under adjustment program Ghana capital market, rural banks, non-financial services and foreign exchange were established. But as of 2012 Statistics gotten from the regulatory Authorities, have fully operational financial services across the country:

Community and rural banks	53
Non-Bank financial Institution (NBFI).....	136
Exchange Bureau	333
Insurance Companies	17
Re-insurance companies	2

2.7 Chapter Summary

This section of the study set out the definitions and the scope of key terminologies used in this study; followed by a theoretical review that seeks to support the research objectives with relevant theories that would stimulate the researcher’s understanding about the study; an empirical review of the study; a conceptual framework that would guide the study; The researcher reviews literature of existing authors in a chronological perspective. Thus, justifying the contribution this study adds to existing literature. The methodology, including the research design, is presented next in chapter three.



CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the various methods used for the study. The chapter comprises of the research design, population, sample and sampling technique as well as the data collection methods and the validity and reliability of the data.

3.2 Data and Data Sources

Data for the study were obtained from the published annual financial reports of listed financial institutions in Ghana. Information primarily was accessed from the firm's official websites and that of the Ghana Stock Exchange's. The Bank of Ghana, who is the regulator of banking and financial services institutions in Ghana, raised the minimum capital requirements of commercial banks from the initial 120 million cedis to 400 million cedis to be achieved by the various commercial banks by close of 2018 financial year. In respect of that, the study sourced data from Eleven year period of listed financial institutions before the implementation of the new minimum capital requirement. The reason is for the study is to examine the impact of corporate governance on the financial performance of these institutions prior to the implementation of the new minimum requirement. The study's data covers the period 2008 to 2018. The population for the study includes all financial institutions in Ghana; this includes the banks, insurance firms, investment houses, savings and loans as well as other financial groupings operating in Ghana. However, emphasis was placed on the listed financial institutions because of the easy access to their financial information.

The stock market is chosen because it is considered as one of the most vibrant and active stock market in the Sub-Saharan Africa (Abor and Fiador, 2013). Hence the study used a sample of thirteen (13) listed banks and also employs judgemental (purposive) sampling technique to select firms that have actually prepared their financial reports.

3.3 Methodology

The study settled on the use of linear regression in establishing the impact of corporate governance practices on the performance of listed financial institutions in Ghana. In ascertaining the impact, the study employed dependent variable i.e. Financial Performance which embodies the Return on Assets (ROA), Return on Equity (ROE) and Earnings per share. For the independent variables, the study resorted to Board Size, Firm Size, Board Remuneration, as well as board gender diversity and Board Independence. Based on both the dependent and independent variables outlined, the study generated the formula below;

$$\text{ROA}_{it} = \alpha_0 + \beta_1 \text{BS}_{it} + \beta_2 \text{BR}_{jt} + \beta_3 \text{GD}_{it} + \beta_4 \text{BIND}_{it} + \beta_5 \text{FS}_{it} + \varepsilon_{it} \quad (1)$$

$$\text{ROE}_{it} = \alpha_0 + \beta_1 \text{BS}_{it} + \beta_2 \text{BR}_{jt} + \beta_3 \text{GD}_{it} + \beta_4 \text{BIND}_{it} + \beta_5 \text{FS}_{it} + \varepsilon_{it} \quad (2)$$

$$\text{EPS}_{it} = \alpha_0 + \beta_1 \text{BS}_{it} + \beta_2 \text{BR}_{jt} + \beta_3 \text{GD}_{it} + \beta_4 \text{BIND}_{it} + \beta_5 \text{FS}_{it} + \varepsilon_{it} \quad (3)$$

Where:

ROA – Return on Asset

ROE – Return on Equity

EPS – Earnings per Share

BS – Board Size

BR – Board Remuneration

GD– Gender Diversity

BIND– Board Independence

FS– Firm Size

ε = Error Term

t = time in years; 2008-2018.

i = 1...n, where n is the total number of listed Financial firms; n = 13.

3.4 Variables Definitions

The study selected elements of financial performance such as the return on assets, return on equity and earnings per share as the main dependent variables to be employed. Corporate governance variables such as Board Gender Diversity, Board Size, Board Remuneration as well as Board Independence was all analysed as the independent variables. Below are the explanations to the various variables used by the study;

3.4.1 Dependent Variables

3.4.1.1 Return on Assets (ROA)

Hargrave (2019) described return on assets as an indicator of how well a firm performs in relations to its total assets. It is used as a tool by investors, analyst, managers and other stakeholders into establishing the judicious use of firms' assets by management. Aladhal (2016) explains that due to the nature of businesses, it would be improper to compare the return on assets of firms in different industries; this is

because of the variations with which different organizations uses its assets. Zabri et al (2016) explains further that the ROA takes into consideration the debt of a firm in its calculation. They explained further that, ROA within an industry is better measured by comparing the current year performance to the previous. A higher ROA according to Hargrave (2019) shows a firm is efficiently making use of its assets while a low ROA score indicates that the firm is not efficient with the use of its assets. This assertion has been debunked by Yahya et al (2017) who insists that a low ROA does not always means a firm is less productive and efficient with its assets but also it could mean that the firm in review is also more assets intensive. ROA is calculated by dividing a firm's net income by its entire assets.

$$ROA = \frac{NetSales}{TotalAssets} * 100$$

The study chose ROA as a financial performance measure because of its ability of not only measuring the usage of firm's assets but also its consideration of a firm debt in its calculation.

3.4.1.2 Return on Equity (ROE)

As defined by Hargrave (1999), return on equity is a financial tool use by managers and other stakeholders in measuring the judicious use of firm's assets in creating profits. Bansal and Sharma, (2006) in their works opined that, the ROE is a financial performance tool which helps the use as such into knowing the returns of a firm on its nets assets. Return of Equity (ROE) is calculated by dividing net income of the firm by the shareholders equity. Bhardwaj and Rao (2016) on the other hand explained that, return on equity does not only measure how well management efficiently make use a firms assets in generating profit but also it is used as a financial measuring tool

in the determination on the rate of return on shareholdings by shareholders. It must however be noted that a good or bad ROE will be based on the industrial benchmark. The researcher used this variable because of its ability to financially determine how good a company's management including the board is in the efficient use of its assets in generating profit.

$$\text{ROE} = \frac{\text{NetIncome}}{\text{Equity}} * 100$$

3.4.1.3 Earnings per share

Earnings per share is also another financial measuring tool used by management, investors as well as other stakeholders in the determination of the financial performance of businesses or their investments. Al-ahdal et al (2018) define earnings per share as the portion of a company's profit allocated to each share unit of a shareholder. According to Al-ahdal et al (2018), earnings per share have the ability of increasing investor's worth. This is because; earnings can cause the prices of shares to rise thereby increasing the value of the share hence the worth of the investor or shareholder. Bansal and Sharma (2006) also on their part defined earnings per share as a measure of how much of a profit a company has generated usually on a quarterly or yearly basis. Al-ahdal et al (2018) explained further that, the increasing in a company's earnings is an indication that the firm is doing well financially in its business and that it is worth investing into. However, Bansal and Sharma (2006) argued that, the results on earnings per share does not take into consideration the company's outstanding debts, neither does it consider the capital needed in generating the earnings, however, a firm with minimum capital raising the same earnings per

share with one which has a wide capital base is worth investing into since it is better in the efficiency of managing its resources.

$$\text{Earnings per Share} = \frac{\text{Total Earnings}}{\text{Outstanding Shares}}$$

3.4.2 Independent Variables

3.4.2.1 Directors Remuneration

Director's remuneration otherwise known as director's emolument is an incentive package paid to board members for their services rendered to the firm. This amount is determined by shareholders annually at the annual general meetings held in presenting the state of the company to its owners

Bansal and Sharma (2016) defines director's remuneration as the compensation paid to board directors by shareholders through fees, salaries or use of a firm's asset. In order to avoid directors apportioning large salaries despite poor performance shareholder decide on the compensation amount to be paid shareholders. According to Bansel and Sharma (2016), shareholders can then sue the board if they do apportion more than what has been approved to them by the shareholders over their remuneration.

3.4.2.2 Board Gender Diversity

Gender diversity is an important component of corporate governance in recent times. Holmstrom (1999) describes gender diversity as the equitable representation of the various genders. He further explained that the promotion of gender diversity in corporate governance is to instil confidence in the female gender while bringing out

the best in them. Joecks (2012) explained that the presence of women representatives on the board diversifies the board; he explained further that studies carried on gender diversity on firm performance in Germany resulted in a positive effect. Other studies carried on by (Ahern and Dittmar, 2012) on Norwegian firms also resulted in negative effects. For the purpose of the research, the study took into consideration the percentage of women representatives on the various boards of listed financial institutions in Ghana.

3.4.2.3 Board Size

The size of the board of directors of firms has been heavily argued on over the years, researchers and policy analysts have over the years tried to examine the best number required on a board for an effective and cost reductive running of businesses. Jensen (2003) believes that there should be a restriction on the size of the board; they argued that a large size is likely to cause some of the board members to be inactive and unproductive. A small sized board is also likely to lack the diversity of knowledge required to cause growth in the firms operations. The UK combined code therefore calls for a sizable number of personnel who can effectively mane the monitoring of management while bridging the gap between management and shareholders. board size represent the numbers of directors on the board.

3.4.2.4 Board Independence

The composition of the board tells of the manner in which board members are formed. This involves the blending of both executive and non-executive members. According to the Singaporean corporate governance code (2012), board composition plays an important role in the progress and growth of the business, the code further directs for

a strong elements devoid of domineering by no person or a small group. Although the duty of the executive board members bring unto the board professional and quality experiences but they are not in a well-placed position to monitor and discipline the CEO when he falters simply because they report to him. Daily and Dalton (2003), they therefore call for more non-executive board members who are independent and are expected to bring on board an independent view on matters. Hence, board independence represents the percentage of outside directors on the board.

3.4.3 Control Variable

3.4.3.1 Firm Size

Firm size is control variable which helps in the determination of the value of the firm based on its total assets. According to Gabaix and Sauvagnat (2014) describes firm size as an important fundamental firm characteristic in finance. Frank and Goyal (2003) explained further that the importance of firm size is in the determination of the dependent variables, they explained that the size of the firm varies across firms however, what is prime to the economist is with the average cost of production per unit at its lowest. Large firms tends to over the years enjoy economies of scale which enables them to as much as possible lower its cost of production as compared to smaller and medium firms. The study in finding the size of the firm calculated the natural log of the total assets of financial institutions.

3.5 Model Justification

To achieve the study's objectives, the OLS technique is use to examine the impact of corporate governance on the performance of listed financial institutions in Ghana. The use of this regression technique is consistence with prior literature such as (e.g.

Bharath et al., 2008; Gray et al., 2009; Aldamen and Duncan, 2013). The following diagnostic tests were performed, before proceeding to running the OLS regression. These include heteroskedasticity for testing the BLUE assumption under OLS, multicollinearity, and stationarity test all passed the threshold limits, and this made OLS technique the best approach for the analysis.

This study uses a panel data regression panel data since panel data combines time series and cross sectional data. Also, the ability to take into account heterogeneity problem or individual effects in cross sectional data makes it appropriate for this study.



CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents and analyses the results of the research findings.

4.2 Descriptive Analysis

The table 4.1 shows the results of the descriptive statistics run on the data gathered from the annual financial statements of listed financial institutions in Ghana.

Table 4.1 Descriptive Analysis Table

Variables	Obs	Mean	Std. Dev.	Min	Max
ROA	143	5.54	5.88	-4.30	27.55
ROE	143	24.91	19.90	-40.37	56.11
Share Earnings	143	0.88	3.98	-13.19	18.28
Firm Size	143	7.00	1.10	4.75	9.44
Board Size	143	0.95	0.10	0.78	1.23
Gender Diversity	143	0.23	0.19	0	0.60
Board Independence	143	0.40	0.08	0.23	0.63
Board Remuneration	143	0.065	0.19	-0.13	1.04

ROA – Return on Assets

ROE – Return on Equity

The Table 4.1 above shows the results obtained for the descriptive analysis of the study. The following was observed. ROA above has a mean of (5.54) a standard deviation of (5.588) a minimum of (-4.30) and a maximum of (27.55). ROE above is also observed to have a mean of (24.90), a standard deviation of (19.90), a minimum score of (-40.37) and a maximum score of (56.10) as shown in the table 4.1 above.

The following are the score observed for the mean, standard deviation, minimum and maximum respectively for share earnings; (0.88)(3.98) (-13.19) and (18.28).

Firm size, board size, gender diversity, board independence and board remuneration above all have a mean of (7.00), (0.95), (0.23), (0.40) and (0.065) respectively. Each again has a standard deviation, a minimum and maximum score of (7.00), (1.10), (4.74) and (9.44) respectively for firm size. Board size also score (0.95), (0.10), (0.77) and (1.23) respectively for the mean, standard deviation, minimum and the maximum. The table 4.1 above also shows the results of gender diversity as (0.23) for the mean, (0.199) as the standard deviation, a minimum and a maximum score of (0) and (0.60). Board Independence on the other hand scored a mean of (0.40), standard deviation of (0.08) a minimum of (0.23) and a maximum of (0.62). finally board remuneration has an observation of 65 with a mean and standard deviation score of (0.06) and (0.19) and also a minimum and a maximum score each of (-0.13) and (1.04) respectively.

4.3 Inferential Statistics

This subsection interprets the results of the regression analysis adopted in the study. It further outlines the underlining assumption underpinning the regression analysis. First the underlining assumptions results are discussed prior to the regression result.

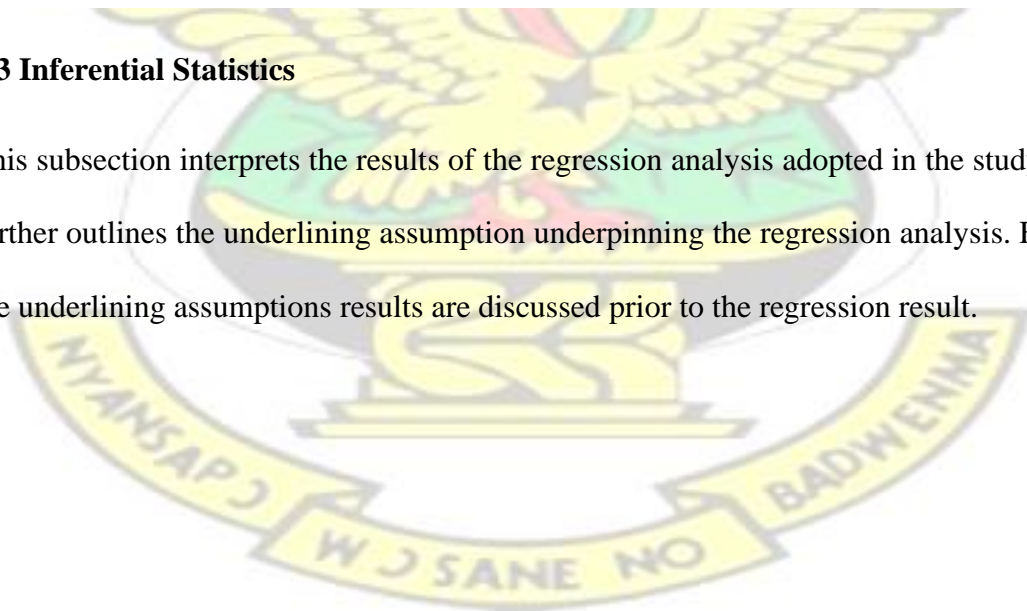


Table 4.2: Stationarity Test results (Phillip Peron- fisher Chi-Square)

VARIABLES	Statistic	Prob.**	Sections
ROA	261.05	0.00***	43
ROE	233.68	0.00***	43
SHARE EARNINGS	357.76	0.00***	45
BOARD SIZE	154.85	0.00***	45
BOARD REMUNERATION	129.56	0.00***	44
BOARD GENDER DIVERSITY	161.83	0.00***	45
BOARD INDEPENDENCE	445.95	0.00***	44
FIRM SIZE	157.38	0.00***	45

Notes: ***, **, and * denotes statistical significance at 1%, 5% and 10% levels;

Ho: There is Unit root problem; Hi: There is no unit root problem

Table 4.2 above reveals the unit root test result of the variables used in the regression analysis. Amid the myriad of tests for stationarity, this study adopts the Philip Peron chi-square statistics to evaluate the tendency of unit-root problem in the variables, holding that stationarity is a requirement to be met in order to use the OLS regression estimate. The stationarity results for the variables show p-values less than the alpha value of 5%. This therefore signifies the rejection of the null hypothesis in favor of the alternative hypothesis which says that the variables do not have unit root problem. Hence, all the variables are stationary at two levels of significance (1% and 5%). Most of the variables are stationary at level with individual intercept included in the test equation with Barlett as spectral estimation. Few variables were stationary at first difference with individual intercept included in the test equation.

Table 4.3: Serial Correlation Result for all the Objectives

Objectives	Stat	Prob	Decision
Objective 1	0.590	0.447	No Serial Correlation
Objective 2	0.791	0.210	No Serial Correlation
Objective 3	0.652	0.351	No Serial Correlation
Objective 4	0.455	0.545	No Serial Correlation

Notes: ***, **, and * denotes statistical significance at 1%, 5% and 10% levels, respectively; variables definition as per Table 4.3.

Ho: There is no serial correlation; Hi: There is serial correlation

Table 4.3 above also represents the serial correlation table results for all the objectives. The serial correlation is tested to ensure the absence of correlation among the residuals or the error terms of the variables used in the study. The absence of serial correlation advances the performance of regression analysis. The probability values of Obj.1, Obj.2, Obj.3 and Obj.4 above show p-values greater than the alpha value of 5%. It can therefore be concluded that the residuals of each of the variables are not correlated. Hence, failed to reject the null the null hypothesis.

Table 4.4: Pearson Correlation Coefficients

	ROA	ROE	Share Earnings	Firm Size	Board Size	Gender Diversity	Board Indept	Board Remuneration
ROA	1.00							
ROE	0.49	1.00						
Share Earnings	0.10	0.35	1.00					
Firm Size	-0.18	-0.16	0.08	1.00				
Board Size	-0.24	0.22	-0.03	0.02	1.00			
Gender Diversity	-0.11	0.19	-0.03	0.07	0.39	1.00		
Board Independent	0.24	-0.13	0.14	-0.08	-0.69	-0.45	1.00	
Board Remuneration	-0.008	-0.07	0.31	-0.012	0.005	-0.02	-0.11	1.00

Note: ROA – Return on Asset, ROE – Return on Equity etc.

Table 4.4 above is also another assumption of the OLS regression analysis. The table is the correlation result using the Pearson correlation co-efficient. It seeks to assess the relationships between corporate governance practices and the performance of listed banks in Ghana. From the various correlation tables, no sign of perfect correlation between variables can be found since all the coefficients are below the critical limit of 0.99. From this instance, the problem of multicollinearity is unfounded (Mela and Kopalle, 2002). The correlation results are presented according to objectives as below:

4.4 Discussion of Analysis as per Table 4.4 above.

The focus of this study is to examine the impact of corporate governance on the performance of listed financial institutions in Ghana. Specifically, examine the relationship between board size and performance of listed banks in Ghana, evaluate the effect of board remunerations on the performance of listed banks in Ghana, examine the association between board gender diversity and performance of listed banks in Ghana, and evaluate the effect of board independence on listed banks performance in Ghana.

4.4.1 Relationship between Board Size and performance of listed banks in Ghana.

The study examines the relationship between board size and performance of listed banks in Ghana. From the results obtained, there is a relationship between board size and performance of listed banks in Ghana. From the results, board size negatively correlates to ROA by 0.24; this also implies that a reduction in the size of the board by 0.24 will see asset increase the same margin while an increase in the board size by

0.24 will see assets of listed banks decline by 0.24. This also implies that large numbers on the board do not contribute to a higher financial performance as shown in the study. Board Size on the other hand positively relates to ROE by 0.22 and negatively relates to share earnings by 0.03 as shown in the correlation matrix in Table 4.4. Gupta and Sharma (2014), also in their study concluded of a negative relationship between corporate governance using variables such as ROA, ROE, Board size and Audit Committee Size.

4.4.2 The effect of board remunerations on the performance of listed banks in Ghana.

The second objective of the study evaluates the effect of board remunerations on the performance of listed banks in Ghana. From the results obtained from the Pearson Correlation matrix in Table 4.4, it can be concluded that there is a relationship between board remuneration and performance of listed banks in Ghana. From the analysis above, it can be concluded that board remuneration is negatively correlated to ROA by 0.0084; A further growth in board remuneration by 0.0084 will witness a fall in the assets growth of listed banks while a fall in board remuneration by 0.0084 will witness a growth in the assets of the firm by the same margin as shown in the Pearson Correlation Table 4.4., negatively also relates to ROE by 0.07 but correlates positively to Share Earnings by 0.31. This finding is consistent with the findings of Ikenna (2014) which the study concluded that there is a negative relationship between corporate governance and business performance among selected banks in Nigeria.

4.4.3 The association between board gender diversity and performance of listed banks in Ghana.

The third objective of the study examines the association between board gender diversity and performance of listed banks in Ghana. From the results obtained from the Pearson Correlation matrix in Table 4.4, it can be concluded that there is a significant relationship between board gender diversity and performance of listed banks in Ghana. From the analysis above, it can be concluded that board gender diversity is negatively correlated to ROA by 0.11; this further implies that, a fall in gender diversity by 0.11 will see assets grow by 0.11 while an increase in the gender diversity by 0.11 will also witness a fall in the growth in assets of the firm by 0.11. Gender diversity on the other hand correlates negatively to share earnings by 0.032 but positively related to ROE, Firm size and Board Size by 0.19, 0.07 and 0.39 respectively. This finding agrees with that of Gupta and Sharma (2014).

4.4.4 The effect of board independence on listed banks performance in Ghana.

The fourth objective of the study evaluates the effect of board independence on listed banks performance in Ghana. From the results obtained from the Pearson Correlation matrix in Table 4.4, it can be concluded that there is a significant relationship between board independence and performance of listed banks in Ghana. From the analysis above, it can be concluded that there is a positive correlation observed between ROA and board independence shows a relationship score of 0.24 which also implies that a growth or an increase in the number of independent board members on the various boards contributes 0.24 to the growth of assets and while a fall in the number of independent board members by 0.24 will likely result in the fall of the firm's assets by the same margin. Board independence also correlates negatively to ROE, Firm Size,

Board Size and Gender diversity by 0.13, 0.08, 0.69 and 0.45 respectively. It however correlates positively to share earnings by 0.14.

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4.5 Regression Statistics

4.5.1 Summary Output

Table 4.5. Regression Summary Output

Source	SS	Df	MS
Model	928.93	7	132.70
Residual	1287.96	57	22.59
Total	2216.89	64	34.63
Number of Observation			143
F (7, 57)			5.87
Prob. > F			0.00
R-Squared			0.42
Adjusted R-Squared			0.35
Root MSE			4.75

Table 4.3 shows the summary output results obtained from the study's regression. It shows the results of the Number of observations, probability F, R squared, adjusted R squared and the Root MSE or the error. The R square is the measure of the nearness of each variable to the regression line. The close the R Square is to 1 the closer it is to the main regression line. The adjusted R Square on the other hand explains regression models explanation power.

From the table 4.5, it can be deuced that, the study has a number of observation of 143, an F score of 5.87 and a probability F score of 0.00. R Square is 0.41 with an adjusted R Squared of 0.34 and an error of 4.75 as shown in the Table 4.5.

The study is statistically significant at 5% significance level as the significant score for the study is 3.67. The R square score is 0.41 which is closer to 1, this means that our regression formula is closer to the main regression line, however, the variables

used can explain up to 42% of the impact of corporate governance on performance of listed banks. This means that there are other variables which can also help explain the impact of corporate governance on the performance of listed financial institutions in Ghana. The study again recorded an adjusted R Square of 0.34 and an error of 4.75 as shown in the Table 4.5.

4.6 Regression Coefficient Model

The table 4.6 shows the regression score to the study.

Table 4.6 Regression Coefficient Table

(ROA, ROE)	Coefficient	Std. Err.	T	P > t	95% Con.	Interval
Share	-0.27	0.18	-1.53	0.13	-0.64	0.08
Earnings						
Firm Size	-0.23	0.56	-0.42	0.67	1.36	0.89
Board Size	-15.12	8.23	-1.84	0.07	-31.59	1.36
Gender	-1.87	3.41	-0.55	0.58	-8.69	4.94
Diversity						
Board	10.64	11.26	0.94	0.35	11.91	33.19
Independence						
Board	3.35	3.37	0.99	0.33	-3.41	10.12
Remuneration						
_Cons	12.95	12.36	1.05	0.29	-11.80	37.72

Table 4.6 shows the results obtained for the regression formula. From the table 4.6 the following formula has been deduced.

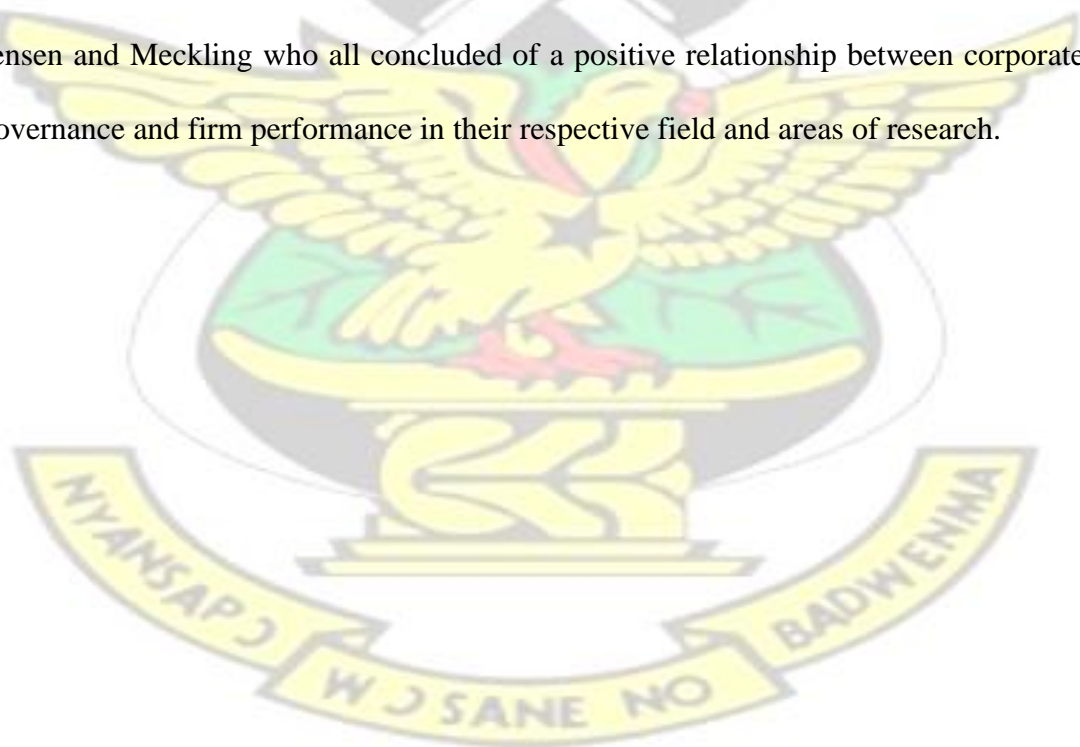
$$(ROA, ROE) = - 0.277 (\text{Share Earnings}) - 0.234 (\text{Firm size}) - 15.11 (\text{Board size}) - 1.873 (\text{Gender Diversity}) + 10.639 (\text{Board Independence}) + 3.355 (\text{Board Remuneration}) + 12.958 (\text{Error}).$$

4.6.1 Interpretation of the Regression Formula.

From the regression formula above, the following observation can be deduced; apart from board independence and board remuneration which is positively related to ROA, all the other variables such as ROE, Share Earnings, firm size, Board size and gender diversity is negatively correlated to ROA per our regression formula above.

The findings is consistent with the findings of Fooladi (2011) who concluded of a negative relation between board size and firm performance as well as that of Gupta and Sharma (2014), Jensen and Harrison (1999) who all concluded of a negative relationship between corporate governance and firm performance in their various research areas.

The finding is also not consistent with the findings of Danoshana and Ravivatham and Jensen and Meckling who all concluded of a positive relationship between corporate governance and firm performance in their respective field and areas of research.



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of the findings, conclusions and recommendation drawn based on the research findings.

5.2 Summary of Findings

The following summary is drawn from the study to examine the impact of corporate governance on the performance of listed financial institutions in Ghana. Specifically, examine the relationship between board size and performance of listed banks in Ghana, evaluate the effect of board remunerations on the performance of listed banks in Ghana, examine the association between board gender diversity and performance of listed banks in Ghana, and evaluate the effect of board independence on listed banks performance in Ghana.

5.2.1 Relationship between Board Size and performance of listed banks in Ghana.

The study examines the relationship between board size and performance of listed banks in Ghana. From the results obtained, there is a relationship between board size and performance of listed banks in Ghana. From the results, board size negatively correlates to ROA by 0.24; this also implies that a reduction in the size of the board by 0.24 will see asset increase the same margin while an increase in the board size by 0.24 will see assets of listed banks decline by 0.24. This also implies that large numbers on the board do not contribute to a higher financial performance as shown in the study. Board Size on the other hand positively relates to ROE by 0.22 and

negatively relates to share earnings by 0.03 as shown in the correlation matrix in Table 4.4. Gupta and Sharma (2014), also in their study concluded of a negative relationship between corporate governance using variables such as ROA, ROE, Board size and Audit Committee Size.

5.2.2 The effect of board remunerations on the performance of listed banks in Ghana.

The second objective of the study evaluates the effect of board remunerations on the performance of listed banks in Ghana. From the results obtained from the Pearson Correlation matrix in Table 4.4, it can be concluded that there is a relationship between board remuneration and performance of listed banks in Ghana. From the analysis above, it can be concluded that board remuneration is negatively correlated to ROA by 0.0084; A further growth in board remuneration by 0.0084 will witness a fall in the assets growth of listed banks while a fall in board remuneration by 0.0084 will witness a growth in the assets of the firm by the same margin as shown in the Pearson Correlation Table 4.4., negatively also relates to ROE by 0.07 but correlates positively to Share Earnings by 0.31. This finding is consistent with the findings of Ikenna (2014) which the study concluded that there is a negative relationship between corporate governance and business performance among selected banks in Nigeria.

5.2.3 The association between board gender diversity and performance of listed banks in Ghana.

The third objective of the study examines the association between board gender diversity and performance of listed banks in Ghana. From the results obtained from the Pearson Correlation matrix in Table 4.4, it can be concluded that there is a significant relationship between board gender diversity and performance of listed

banks in Ghana. From the analysis above, it can be concluded that board gender diversity is negatively correlated to ROA by 0.11; this further implies that, a fall in gender diversity by 0.11 will see assets grow by 0.11 while an increase in the gender diversity by 0.11 will also witness a fall in the growth in assets of the firm by 0.11. Gender diversity on the other hand correlates negatively to share earnings by 0.032 but positively related to ROE, Firm size and Board Size by 0.19, 0.07 and 0.39 respectively. This finding agrees with that of Gupta and Sharma (2014).

5.2.4 The effect of board independence on listed banks performance in Ghana.

The fourth objective of the study evaluates the effect of board independence on listed banks performance in Ghana. From the results obtained from the Pearson Correlation matrix in Table 4.4, it can be concluded that there is a significant relationship between board independence and performance of listed banks in Ghana. From the analysis above, it can be concluded that there is a positive correlation observed between ROA and board independence shows a relationship score of 0.24 which also implies that a growth or an increase in the number of independent board members on the various boards contributes 0.24 to the growth of assets and while a fall in the number of independent board members by 0.24 will likely result in the fall of the firm's assets by the same margin. Board independence also correlates negatively to ROE, Firm Size, Board Size and Gender diversity by 0.13, 0.08, 0.69 and 0.45 respectively. It however correlates positively to share earnings by 0.14.

5.3 Conclusion

The overall objective of the study is to examine the impact of corporate governance on the performance of listed financial institutions in Ghana. Specifically, examine the relationship between board size and performance of listed banks in Ghana, evaluate

the effect of board remunerations on the performance of listed banks in Ghana, examine the association between board gender diversity and performance of listed banks in Ghana, and evaluate the effect of board independence on listed banks performance in Ghana. The study's conclusion based on the research findings is that, there is mostly a negative relationship between corporate governance and performance listed banks in Ghana.

5.4 Recommendations

The following recommendations based on the research findings are drawn for the study;

1. Since board size have been noted to negatively correlate to financial performance using ROA and ROE, shareholders of listed financial institutions are advised to keep and maintain a sizable number of people as directors in steering the affairs of the company on their behalf.
2. The quest to increase the remuneration package of board members incessantly also tends to negatively corresponds to ROA and ROE. Shareholders should therefore put in the required remuneration package which will not be detrimental to the growth of the firm.
3. Gender diversity is observed to negatively correlate to ROA and Share earnings. It is therefore recommended that the increase in the number of women do not necessary correlates to increased financial performance. The study recommends that as much as gender diversity correlates negatively to financial performance a sizable number of women should be kept on the board

since an increase in their number by 0.19 witnesses ROE to grow by the same margin.

4. Board Independence forms an integral part in the corporate governance settings, the study recommends the increase in the number of independent board members since their work contributes positively to the growth of listed financial institutions assets and equity.
5. Growing the assets and equity base of listed financial institutions does not necessarily correlates to a positive financial performance. The study therefore recommends that other financial performance avenues such as reduction of expenses and increases in the revenue base of listed financial institutions are the sure way to a positive financial performance.

5.4 Recommendation for Future Research

The following research could be considered for future studies;

1. To assess the impact of government macroeconomic policies on the performance of corporate governance and the financial performance of listed manufacturing firms in Ghana.

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