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Research Paper

Corporate Governance and Performance of Firms: An Empirical Evidence from the Banking Sector of Ghana

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Abstract. The study investigates the relationship between corporate governance and the performance of banks in Ghana in terms of their financial performance. Primary and Secondary data were collected through the administration of interview questionnaires and from the Ghana Association of Bankers respectively. In analyzing the data, panel data methodology was used. The findings show that large board size, long serving CEOs, size of audit committee, audit committee independence, foreign ownership, institutional ownership, annual general meeting and dividend policy are positively related and associated with the financial performance of banks in Ghana. The banks are encouraged to adopt good corporate governance practices to improve on their financial performance and also protect the shareholders. Most importantly, the regulatory authorities must ensure compliance with good corporate governance and apply the appropriate sanctions for non-compliance to help the growth and development of the banking sector. The main contribution of the study to knowledge lies in its effort in strengthening corporate governance beyond the rights and responsibilities of different stakeholders in the management of a firm into areas involving the relationship between finance providers and a firm, compliance with legal, ethical and environmental needs of the society among others. This contribution has in no small way helped in enhancing my understanding about the interpretations which have shaped the corporate governance in relation with performance of the firm both in theory and practice.

Key Words: Corporate Governance, Firm Performance, Ghana Association of Bankers

INTRODUCTION

In the global world and competitive economy of today, the success of every national economy depends on the crucial role of firms' competitiveness, transparency and governance structure which operate within its territory, since firms are the entities that drive and create economic value (ICAN, 2009). The need for transparency and trust in the governance of corporate firms, indeed has been one of the major concern for standard setters all over the world. Corporate governance has become a topical issue due to its immense contribution to the economic growth and development of countries. The absence of good corporate governance is a major cause for failure of many well performing firms. Existing literatures generally support the call that good corporate governance has positive impact on the performance of firms; OECD (2009), ACCA (2008), Gompers *et al.* (2003), Claessens *et al.* (2002) and others. The reflection of the performance of firms depicts the economic wellbeing of that country. Thus, the low level of development in developing countries is attributable to the low level of good corporate governance practices. As a result, such countries have been identified by the world bank and other authors as having inadequate capacity to effectively and efficiently manage their resources. Hence the emphasis placed on corporate governance in the existing literature is the most important problem facing the developing countries such as Ghana.

Several studies conducted in the developing countries have affirmed the positive relationship between good corporate governance and firm performance, (Jensen and Meckling, 1976; Fama and Jensen, 1983; Harris and Raviv, 1988; Shleifer and Vishny, 1997; OECD, 2009). However, little research has been conducted on the subject in developing countries, let alone Ghana, despite some recent studies by Abor and Biekpe, 2007; Tsamenyi *et al*., 2007; Bokpin and Arko, 2009. Specifically, no study has yet been conducted on corporate governance and performance in the banking sector as a whole. The banking sector has witnessed such rapid expansion and assumed importance in the economy of Ghana as to make the need for the study very imperative.

The concept of corporate governance has been defined as “dealing with the ways in which supplies of finance to corporations assures themselves of getting return on their investment (Shleifer and Vishny, 1997). It deals precisely with problems of conflict of interest, design ways to prevent corporate misconduct and aligns the interests of stakeholders using incentive mechanism (Shleifer and Vishny, 1997). The concept of corporate governance has different meanings to different people in different context. Corporate governance is a system of regulation that differentiate clearly the power, responsibilities and interests; and mutual checks relationship between shareholders (including stockholders), the board of directors (including directors), the board of supervisors and the executive.

The origin of the need for a corporate governance process arise from the separation of ownership from management, and from the varying views by culture of who the stakeholders are and of what significance. A governance regime is a function of the financial market development, the degree of separation between management and ownership and the concept disclosure and transparency. Good governance is measured on the basis of accounting standards; and the perceived legal standards in a country. Good corporate governance is a desired feature of a liberalized market to ensure free flow of both foreign and domestic capital for accelerated economic development. This is due to the fact that, it increases investor confidence and goodwill, ensures transparency, fairness, responsibility and accountability. Gompers *et al*. (2003), maintained that good corporate governance increases valuations and boost the profitability of the firm. Claessen *et al*. (2002) posits that; better corporate governance benefits firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders. Donaldson (2003) also posit that; good corporate governance is important for increasing investor confidence and market liquidity. According to Frost *et al*. (2002), improvements in corporate governance practices that contribute to better disclosures in business reporting in-turn can induce greater market liquidity and capital formation in emerging markets.

The banking sector or industry is an important component or aspect of the financial sector of the Ghanaian economy due to its financial intermediation role. They give protection to its clients by guaranteeing better returns on their savings and deposits, and the safety of their investments; serve as a financial advisory body to firms thereby promoting business activities in the country. As a result of the peculiar nature of the banking sector or industry and its significant contributions to the development of the economy of Ghana, coupled with the non-existence of such study, makes it imperative to undertake this research. The main objective of this research is to investigate the relationship between corporate governance and the financial performance of the banking sector in Ghana. Apart from the general introduction, the paper has three other parts namely; the review of relevant literature, followed by the methodological framework which governs the study, discussions of the results and the conclusion.

LITERATURE REVIEW

Corporate governance is seen as the set of measures adopted with a firm to favor economic agents to take part in the productive process in order to generate some organizational surplus and to set up a fair distribution between the partners, taking into account what they have invested into the firm (Maati, 1999). The review of the literature is from four thematic complementary theoretical perspectives.

Stewardship Theory

The stewardship theory emerged as a result of the seminar work by Donaldson and Davis (1991). The theory is based on the assumption that, the interest of shareholders and the interest of management are affiliated, therefore, management is motivated to take decisions that would maximize performance and the total value of the firm. It is the believe of the theory that, there is greater utility in cooperative than in individualism or individualistic behavior and hence whilst the actions of management would be to maximizing shareholders’ wealth, it would at the same time be meeting their personal ambitions or needs. The managers protect and maximize shareholders’ wealth through firm performance, because by so doing, their utility functions are maximized (Davis *et al*., 1997). In order to achieve this goal, the shareholders must put in place appropriate empowering mechanism and governance structures, information and authority to facilitate the autonomy of management to take decisions that would maximize their utility as they achieve the goal of the firm rather than self-servicing objectives. For CEOs who are stewards, their pro-firm actions are best facilitated when the corporate governance structures give them high authority and discretion (Donaldson and Davis, 1991). Davis *et al*.; (1997), identified five components of the management philosophy of stewardship as trust, open communication, empowerment, long-term orientation and performance enhancement. One key distinguishing feature of the theory of stewardship is that it replaces the lack of trust to which agency theory refers with respect for authority and inclination to ethical behaviour.

The stewardship theory considers the following summary as essential for ensuring effective corporate governance in any entity:

Board of directors: The involvement of Non-Executive Directors (NEDs) is viewed as critical to enhance the effectiveness of the board's activities because executive directors have full knowledge of the firm's operations. Thus, it is believed that the appointment of NEDs will enhance decision-making and ensure the sustainability of the business.

Leadership: Contrary to the agency theory, the stewardship theory stipulates that the positions of CEO and board chair should be concentrated in the same individual. The reason being that it affords the CEO the opportunity to carry through decision quickly without the hindrance of undue bureaucracy. We must rather point out that this position has been found to create higher agency costs. The argument is that when governance structures are effectively working, there should not be undue bureaucratic delays in any decision-making.

Finally, it is argued that small board sizes should be encouraged to promote effective communication and decision-making. However, the theory does not stipulate a rule for determining the optimal board size and for that matter what constitutes small.

Agency Theory

Agency theory is one of the theoretical principles underlining the issue of corporate governance developed by Jensen and Meckling (1976) resulting out of the separation of ownership and control. Investors have surplus funds to invest but due to technical constraints such as inadequate capital and managerial expertise to manage the funds, they employ the services of managers to invest their funds into profitable ventures so as to generate good returns, and managers rewarded for their services. The actions and inactions of managers do not always promote the interest of the financiers and of which some of their actions are detrimental to the fortunes of the financiers, hence the issue of agency problem. Thus, agency problem as described by Jensen and Meckling (1976), focuses on the consumption of perquisites by managers and other types of empire building (La Porta *et al.*, 2000).

These managers, interestingly, often tend to entrenched themselves in position. According to Shleifer and Vishny (1989), managers can expropriate shareholders by entrenching themselves and staying on the job even if they are no longer competent or qualified to run the firm. Managerial expropriation of funds can also take more elaborate forms than just taking cash out, such as transfer pricing (Shleifer and Vishny, 1997). Such transfer pricing, asset stripping, and investor dilution though often legal, have largely the same effect as theft (La Porta *et al.,* 2000). More also, managerial expropriation can take the form of diversion of firm opportunities from the firm, installing possible unqualified family members or cronies on key managerial positions, or overpaying executives, using the profits of the firm to benefit themselves rather than the money to the investors (La Porta *et al.*, 2000). As a result of the interest of opportunistic, self-interested managers, there was an agency lost which is the extent to which returns to the residual claimants and; the owners fall below what they would be if the owners exercised direct control over the company (Jensen and Meckling, 1976). The remedies to this idea of agency problem within corporate governance; involves the acceptance of certain 'agency cost' which is involved either in creating incentives or sanctions that will align executive interest with the interest of shareholders, or in monitoring the executive conduct in order to constrain their opportunism (Roberts, 2004). Thus, the principles of corporate governance are meant to control the internal and external entrenchment practices of executives through internal and external control mechanisms which either bring into line the interest of executives with the shareholders or monitor them directly (Boyd, 1994; Gibbs, 1993; Hill *et al.*, 1988; Walsh *et al*., 1990).

In further discussion of agency relationships and cost (Jensen and Meckling, 1976), describe agency relationship as a contract under which "*one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent".* In this scenario, there exists a conflict of interests between mangers or controlling shareholders; and outside or minority shareholders leading to the tendency that the former may extract "*perquisites"* (or perks) out of a firm's resources and be less interested to pursue new profitable ventures. Agency costs include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interest between the principal and the agent. The share price that shareholders (principal) pay reflects such agency costs. To increase the firm value, one must therefore reduce agency costs. The following represent the key issues towards addressing opportunistic behavior from managers within the agency theory:

Composition of board of directors: The board of directors is expected to be made up of more Non-Executive Directors (NEDs) for effective control. It is argued that this reduces conflict of interest and ensures a board's independence in monitoring and passing fair and unbiased judgement on management.

CEO duality: It is expected also that different individual occupies the positions of CEO and board chairperson as this reduces the concentration of power on one individual and thus greatly reduces undue influence of particular management and board members

Resource Dependency Theory

This theory was developed by Pfeffer (1973) and Pfeffer and Salancik (1978) with the aim of emphasizing the important role played by the board of directors in providing access to resources that would enhance the firm's performance and protect it against externalities. Firms require resources in the areas of Finance, human, technical, information, communication and technology to function properly and to achieve their objectives. The accessibility to resources enhances organizational functioning, performance and survival (Daily *et al*., 2003). Hillman *et al*. (2000), argue that; resource dependence theory focuses on the crucial role that the directors perform in providing or securing essential resources to the firm through their linkages to the external environment. They contend that; directors bring resources to the firm in the form of skills, information, access to key constituents such as buyers, suppliers, public policy makers as well as legitimacy. Firms depend on each other for business because they form the largest proportion of the firm's customer base. This means that; the actions of one firm can greatly influence the financial performance of the other either positively or negatively. Therefore, there is need for firms to establish good relationships at board levels. This was collaborated by Johnson *et al*. (1996), by agreeing to the fact that, the theory provides focus on the appointment of representatives of independent firms as a means of gaining accessibility to resources that are so critical for the survival and success of the firm.

Pfeffer and Salancik (1976), posited that; boards provide advice, counsel and know-how, legitimacy and reputation, vehicle for communicating information with external firms and privileged access to commitments or support from weighty players outside the firm. The boards performed these functions through social and professional networking (Johannisson and Huse, 2000) and interlocking directorates (Lang and Lockhart, 1990). Zahra and Pearce (1989), posited that; the diverse background of the directors enhance quality of their advice. Abdullah and Valentine (2009), also classified directors into four categories of business experts, support specialists, community influential and insiders. The theory favours bigger boards (Dalton *et al*., 1999; Booth and Deli, 1996; Pfeffer, 1973; Provan 1980).

Stakeholder Theory

One argument against the strict agency theory is its narrowness, by identifying shareholders as the only interest group of a corporate entity necessitating further exploration. By expanding the spectrum of interested parties, the stakeholder theory stipulates that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951). The stakeholder's theory was developed by Freeman (1984) with emphasis on the need for managers to have corporate accountability to stakeholders instead of shareholders. Stakeholders are "any group or individual that can affect or is affected by the achievement of a corporation's purpose" (Freeman 1984). Donaldson and Preston (1995), defined stakeholders as identified groups or persons who have interest in a firm and these interests have intrinsic value. The theory is interested in how managerial decision making affect all stakeholders and no interest should be able to dominate the other (Donaldson and Preston, 1995). The stakeholder theory is therefore appearing better in explaining the role of corporate governance than the agency theory by highlighting the various constituents of a firm. Thus, creditors, customers, employees, banks, governments; and society are regarded as relevant stakeholders. Related to the above discussion, John and Senbet (1998) provide a comprehensive review of the stakeholders' theory of Corporate Governance which points out the presence of many parties with competing interest in the operations of the firm. They also emphasize on the role of non-market mechanisms such as the size of the board and; committee structure as important to firm performance.

Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity have impact on the external environment requiring accountability of the organization to a wider audience than simply its stakeholders. For instance, McDonald and Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone's position (Freeman *et al.*, 2004).

Despite the good intentions of the theory, it has been criticized for putting too much pressure or burden on managers by making them accountable to many stakeholders without specific guidelines for solving problems resulting from conflicting interests. This situation according to Jensen (2001), has given managers the discretionary powers to decide on whose interest to serve. Jensen (2001) posits that, managers should pursue objectives that would lead to increasing the long-term value of the firm since this would not be attained by ignoring the interest of some of the stakeholders. The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to lower ranks, inter-personal relations, working environment among others, are all critical issues that should be considered. An extension of the theory called an "enlightened stakeholder theory" was proposed to take care of the shortcomings. However, problems relating to empirical testing of the extension have limited its relevance (Sanda *et al.*, 2005).

In this regard, the firm should take into consideration the interests and influences of people who are either affected or may be affected by the firm's policies and operations (Frederick *et al.*, 1992). Donaldson and Preston (1995), as a result of the complex nature of the stakeholder relationship and the need for the better management of the various stakeholders, concedes that the stakeholder theory cannot be a single theory but categorized into three different approaches of descriptive, instrumental and normative.

Corporate governance and performance of firms

Opinions seem to be changing since many saw corporate governance as a further piece of bureaucracy to deal with when the term came into widespread use early in the 1990s.

Previous studies (Rajan and Zingales, 1998; Brickly *et al.*, 1994; Williams, 2000; Drobertz *et al.*, 2003; Byrd and Hickman, 1992; Hossain *et al.*, 2000; Rosenstein and Wyatt, 1990 and Weisbach, 1998), have established positive relation between good corporate governance practices and performance of the firm. However, other studies (Bathala and Rao, 1995; Hutchinson, 2002) have established negative relationship. Nevertheless, other researchers (Park and Shin, 2003; Singh and Davidson, 2003) could not establish negative relationship. The inconsistencies in the research findings could be attributed to the restrictive nature of data. Despite these conflicting findings, the literature generally attests that, there is no doubt as to the importance of good corporate governance enhancing performance of firms. This fact is attested to by the particular attention being given to issues of corporate governance by governments, regional bodies; and private institutions. In the aftermath of the financial crises in 2007, OECD (2009) on the corporate lessons from the financial crises concluded that; the crises were largely due to failures and weaknesses in corporate governance arrangements which could not serve their purpose to safeguard against excessive risk taking by the financial institutions.

HYPOTHESIS DEVELOPMENT

There are empirical literatures on corporate governance and performance of firms that identified various characteristics of corporate governance which influence performance of the firm. Below are some of these various characteristics and the hypotheses to be tested.

Board Size

The number of directors constituting the board of a firm can influence its performance positively or negatively. As posited by Jensen (1993), a value-relevant of corporate board is its size. The issue; however, remains that; it is difficult to determine the optimal size of boards since a lot of factors are taken into consideration in selecting directors. Lipton and Lorsch (1992), argue that; an optimal board size should be between seven and nine directors to ensure better coordination; as supported by the other studies (Yermack, 1996; Sanda *et al*., 2005; Eisenberg *et al.*, 1998) which indicated that the financial market, value firms with relatively small boards. On the other hand, larger boards would offer the company the opportunity of pool of talents and a varied range of expertise to help make better and inform decision and difficult for powerful CEOs to dominate. However, Jensen (1993), and Lipton and Lorsch (1992), disagree with that assertion and suggested that larger boards are less effective and easier for powerful CEOs to control. This led to the development of hypothesis one below;

H_1: The Size of the Board of Directors is negatively related to Performance of the Firm

Board Independence

The executive and non-executive mix of directors constituting a firm's board is very important for its performance. The proportion of the directors would to a large extent would determine the quality of decisions taken since objectivity would play a crucial role and whether the board can actually monitor and control the management. A board is seen to be more independent if it has more non-executive directors (John and Senbet, 1998). Executive directors are more familiar with the activities of the organization and therefore in a better position to monitor top management particularly if they perceived the opportunity to be promoted to positions occupied by incompetent executives. Similarly, non-executive directors may act as “professional referees” to ensure that competition among executive directors stimulates actions consistent with shareholder value maximization (Fama, 1980). Indeed, evidence from empirical studies (Byrd and Hickman, 1992; Brickley *et al*., 1994; Weisbach, 1998) strongly agreed to the crucial role of non-executive directors in monitoring management performance, offering invaluable advice to shareholders and protecting the interest of shareholders. Rosenstein and Wyatt (1990), posits that; financial markets usually respond positively to the announcement of the appointment of non-executive directors by showing an appreciable level of improvement in the performance of the firm’s shares. Though other studies (Hermallin and Weisbach, 1991; Bhagat and Black, 2002; Fosberg, 1989; Yermack, 1996; Klein, 1998; Agrawal and Knoeber, 1996) could not establish any significant relationship between non-executive directors and firm performance; as it is generally accepted that the effective performance of the board depends on having the right proportion of executive and non-executive directors on the board (Fama and Jensen, 1983; Baysinger and Hoskinson, 1990; Pearce and Zhara, 1992). This led to the development of the second hypothesis.

H_2: Non – Executive Directors have positive relationship with Performance of the Firm

CEO Duality

CEO duality occurs when the two most powerful positions in the firm, i.e. the chairman of the board and that of the CEO are combined and held by one person. Such situations concentrate too much power in the hands of one person leading to decisions that would not promote the interest of shareholders. Brickley *et al*. (1997), posits that; the combination of the two positions would bring about conflict of interest and higher of agency cost. According to Jensen (1993), the apparent lack of independence in the leadership structure would make it difficult for the board to respond to top management failures. Similarly, the empirical evidence on CEO duality is mix. Rechner and Dalton (1991) found positive relationship between combining the two positions because it speeds up decision making process and remove unnecessary bureaucracy and hence stronger financial performance. On the other hand, Sanda *et al*. (2005) found positive relationship in separating the two positions. Nonetheless, Daily and Dalton (1992), found no link between CEO duality and corporate performance. This led to the third hypothesis development.

H_3: The Separation of CEO and Board Chairman positions has positive relationship with Performance of the Firm

CEO Tenure

All things being equal, the longer a CEO stays in office the better the firm performance. This is due to the fact that, the CEO as the head of the executive needs the assurance of his job security to be able to take decisions that would enhance the performance of the firm. CEOs take strategic decisions that are short-term, medium-term and long-term. It is the long-term decisions that benefit the firm the most because the benefits will accrue over a long period of time and ensure the long-term survival of the firm. Nonetheless, if proper measures are not taken to monitor the CEOs, there is the likelihood that they would become complacent and engage in activities to extend their control, which is referred to as “empire control”. A long tenure of CEO not only gives job security but also influences CEOs investment decisions because they stand the chance to witness the results of their decision and hence, are likely to be proactive and magnanimous in their decision making because of the psychological influence (Kyereboah-Coleman, 2007). This led to the subsequent forth hypothesis development.

H_4: Longer serving CEOs enhance Performance of the Firm

Audit Committee

Audit committees are sub-committee of the board of the firm. It is a very ideal corporate governance mechanism with the aim of enhancing the credibility and integrity of financial information produced by the firm and to increase public confidence in the financial statements. Audit committee is one of the committees recommended by the Cadbury committee to have an oversight responsibility over management in the preparation of the financial statements. To ensure the independence of the audit committee, the committee must consist of only non-executive directors and with membership of not less than three members. The establishment of the audit committee would definitely lead to better firm performance hence the 5th and 6th hypothesis stated below.

H_5: The size of Audit Committee has positive relationship with Performance of the Firm
H_6: More non-executive directors on audit committee has positive relationship with Firm Performance

Foreign Ownership

Foreign ownership are investors who come to invest in the economy of another country for a positive return on their investment and would therefore ensure effective monitoring of management to avoid any managerial expropriation. Foreign ownership is expected to improve the corporate governance practices and performance of the firm. According to Stulz (1999), foreign institutional investors brings about lower agency cost. These investors might be coming from countries where best practices that uphold the tenets of good corporate governance practices and would like to emulate same at where they invest. The institution of these stringent control mechanisms leads to higher firm performance and this led to the 7th hypothesis stated below.

H_7: Foreign Ownership is positively related to Performance of the Firm

Institutional Ownership

In influencing the performance of a firm lies the nature of the firm's ownership structure. The firm's share ownership structure could either be widely spread as prevail in UK and the US, where shares of large number of publicly traded firms are widely held (Denis and McConnell, 2003) or concentrated ownership where the firm's share are owned by few largest shareholders; mostly by institutions. Krivogorsky; (2006), posits that; more than 50% of shareholdings in listed industrial firm's capital in Australia, Germany, Italy and Belgium are held by large block holders. The presence of large shareholders in a firm's capital structure would impact greatly on the performance of the firm positively. This is due to the fact that; these shareholders are able to remove non-performing mangers from office. According to Kyereboah-Coleman (2007), depending on the involvement and influence, institutional shareholding is a key signal to other investors of the potential profitability of the firm which might lead to an increase in demand for the firm's shares and improve its value in the market. From the above, we anticipate positive relationship between institutional shareholding and performance of firms. Hence, we test hypothesis eight below.

H_8: There is a positive relationship between institutional shareholding and Performance of the Firm

Annual General Meeting

The highest decision making body of a firm is the annual general meeting and therefore offers the shareholders the chance or the opportunity to actively take part in the governing process of the company. It is a period of accountability by the directors of their stewardship to the shareholders and also for the renewal of their mandate in continuation of office. Major decisions are taken by the shareholders at the said meeting which determine the strategic direction of the firm. The annual general meeting serves as a monitoring platform thereby enhancing the transparency of the firm's operation. This would help improve the performance of the firm. This led to the testing of the 9th hypothesis as stated below.

H_9: There is a positive relationship between annual general meeting and Performance of the Firm

Dividend Policy

A firm's dividend policy outlined or gives an indication of how profit would be shared or appropriated when it's declared. The profit could either be used to pay dividend to shareholders or be retained for investment purposes in the firm. This is very important due to the fact that, once the firm pays more of their profit in form of dividend to the shareholders, then they may have to raise funds from the financial market for investment. The policy therefore, helps investors to decipher which firm to invest. Firms with more generous dividend policy are likely to attract more investors and this would help in improving the performance of the firm. The firm internally would be performing well because of the availability of funds through the primary issue of equity shares and shares would be actively traded on the stock exchange and improving the performance of the firm in the market. This led to the 10th hypothesis to be tested.

H_{10}: There is a positive relationship between Dividend Policy and Performance of the Firm

Measuring Performance Of Firms

The key performance indicators chosen to measure the performance of firms depend on the interest and justification of the analyst. Performance indicators normally includes profitability, efficiency, leverage and liquidity. According to Bourne and Franco (2003), a good performance measure must have the fundamental characteristics of been a broad-based measure, structured understanding of strategy, provide feedback and take action on results. The study will be focus on those measures that are strategically important for the success of the firm. In that direction, the study will measure the financial performance of the firms by looking at profitability (ROA and ROE).

METHODOLOGY

The combination of primary and secondary data was

Table 1: Variables Definitions and Measurement

Variable	Definition	Measurement
Performance of Firm		
ROA	Return on Asset	Net profit as a percentage of total assets
ROE	Return on Equity	Net profit as a percentage of shareholders' equity
Board Characteristics		
Board Size	Board Size	Number of directors on board
Independence	Number of non-executive directors	Proportion of non-executive directors sitting on the board
CEO Duality	Role of CEO	A binary that equal one in case the CEO is Chairman of the board
CEO Tenure	Number of years served	Number of years in position
Audit Committee	Size and Independence	Number of members and affiliate of audit committee
Foreign Ownership	Foreign Ownership	A dummy variable with one of it is a foreign firm and zero if it's a wholly Ghanaian owned firm.
Institutional Ownership	Shares held by institutions	Percentage of shares held by institutions
Control Variables		
Size	Firm Size in terms of total assets owned	Log of total assets
Age	Age of the firm	Number of years from the observation stage to the year of incorporation
Tangibility of Assets	Fixed Assets base of the Firm	Ratio of Fixed Assets to Total Assets

employed by the researchers in order to answer the research question. Data was collected through the use of structured self-administered questionnaires and the financial statements of firms from the period 2009 to 2015. In this study, panel data framework is in line with the one used by Abor and Biekpe, (2007). It involves the pooling observations on cross section of units from several time periods and provides results that are simply not noticeable in pure cross sections or pure time series studies. In a panel data, an observation involves at least two dimensions; a cross sectional dimension, indicated by subscript i, and the time series dimensions, indicated by subscript t (Hsiao and Yanan, 2006). In the variables used for the model are attached double subscripts so as to differentiate them from regular time series or cross section regression. The general panel data is as follows:

$$Perf_{it} = \alpha_i + \beta X_{it} + \delta W_{it} + kC_{it} + \mu_{it} \quad (1)$$

Where:
$Perf_{it}$ = performance of firm i, in time t;
X_{it} = a vector of board factors of firm i, in time t;
W_{it} = a vector of ownership variables of firm i, in time t;
C_{it} = a set of control variables of firm i, in time t;
μ_{it} = the error term

To ensure robustness of the model and to reduce specification bias, the model also included control variables of size, age and asset tangibility. Since performance is a function of both ownership and board variables, the model is reformulated as follows:

$$Perf = \propto + \beta(board) + \delta(ownership) + k(control\ factors) + \mu \quad (2)$$

Variable Definitions and Measurement

Table 1 shows the definitions and measurement of all variables used in the study. Variables ROA and ROE under Performance of Firms are defined and measured as return on assets; return on equity and net profit as a percentage of total assets; net profit as a percentage of shareholders' equity respectively. Variables under Board Characteristics; board Size, independence, CEO duality, CEO tenure, audit committee, foreign ownership and

Table 2: Descriptive Statistics

Variables	Mean	Standard Deviation	Minimum	Maximum
Performance Measures				
Return on Assets	0.06	0.04	0.03	0.21
Return on Equity	0.20	0.10	0.02	0.31
Board Factors				
Board Size	7.42	1.95	7	13
Board Independence	5.89	2.21	2	10
CEO Duality	0	0	0	0
CEO Tenure	6.05	2.27	2	19
Audit Committee Factors				
Size of Audit Committee	4.58	0.90	3	7
Audit Committee Independence	2.74	0.81	2	5
Ownership Factors				
Foreign Ownership	0.24	0.43	0	1
Institutional Ownership	0.2557	0.2564	0	0.8
Dividend Policy	0.51	0.49	0	1
Annual General Meeting	0.93	0.21	0	1
Control Factors				
Size of the Firm	15.26	1.76	8.70	20.81
Asset Tangibility	0.17	0.12	0.01	0.50
Firm Age	26.09	16.02	5	90

Summary Statistics (Observations = 21)

institutional ownership are defined as board size; number of non-executive directors; role of CEO, number of years served; size and independence; foreign ownership and; shares held by institutions respectively. These variables are measured by number of directors on board; proportion of non-executive directors sitting on the board; a binary that equal one in case the CEO is chairman of the board; number of years in position; number of members and affiliate of audit committee; a dummy variable with one if it is a foreign firm and zero, if it's a wholly owned Ghanaian firm and; percentage of shares held by institutions respectively. Control variables such as Size, Age, and Tangibility of Assets are defined as firm size in terms of total assets owned; age of the firm and; fixed assets base of the firm and are measured as log of total assets; number of years from the observation stage to the year of incorporation and; ratio of fixed assets to total assets respectively

EMPIRICAL RESULTS

Descriptive Statistics

The descriptive statistics of the dependent and the independent variables of the study are shown in Table 2 below. Averagely, most of the firms achieved 6% return on asset with maximum of 21% and minimum of 3% respectively. The value of mean of return on equity was 20%, maximum of 31% and minimum of 2%. The board size of the company ranges from 7 to 13 members with most firms having 9 members. Averagely, the boards are constituted by 5 non-executive directors and up to a maximum of 10 members with a minimum of 3 members. The average number of years a CEO stays in office is 6 years, with a maximum of 19 years and minimum of 2 years. The firms have an average of 5 members making up the audit committee, maximum of 7 and minimum of 3 members. Out of the number, independent directors constitute 3 members on the average, maximum of 5 and minimum of 2 members. Foreign Ownership constitutes 24% ownership on the average, showing that 76% of ownership is held by local investors. Institutional Ownership represents 26% and 74% by individual investors. Averagely, 51% of the firms have dividend policy whilst 49% of the firms do not have dividend policy. Most firms, 95% on average held regular annual general meeting in the last 6 years. The mean value of the size of the firm is 15.26%, with maximum of 20.61% and a minimum of 8.70% respectively. The mean value of asset tangibility is 17%, with a maximum of 45% and a minimum of 12% respectively. The average age of firm is

Table 3: Board Factors

Independent Variables	**Dependent Variables**	
	Return on Assets (ROA)	**Return on Equity (ROE)**
Board Size	0.658	0.387
	0.013**	0.456
Board Independence	0.008	-0.213
	0.821	0.203
CEO Tenure	0.03	-0.007
	0.054**	0.835
Size of the Firm	-0.02	-0.006
	0.134	0.607
Asset Tangibility	-0.018	-0.298
	0.695	0.041**
Organizational Age	-0.006	-0.016
	0.088	0.135
R	0.766	0.658
R-Squared	0.671	0.479
Adjusted R-Squared	0.336	0.025
S.E of Regression	0.195	0.554

**Indicate 5% significant level

26 years, with a maximum been 90 years and a minimum of 5 years.

REGRESSION RESULTS

Board Factors

The results of the relationship between board factors and firms' performance in terms of regression analysis is shown in table 3. The results show a statistically significant positive relationship between board size and return on assets. The result is a sharp contrast with the predicted negative relationship. Hence, the rejection of hypothesis one. The result means that; larger boards are better, and therefore, the larger the board, the better the performance of the firm. This position is based on the assumption that larger boards are constituted with members from different backgrounds that brings to the board different professional expertise and skills. This would aid better decision making and put the board in a good position to monitor the activities of management. Yawson (2006) posits that; due to the diversity of the directors of larger boards, it enriches the knowledge base of firms. Pearce and Zahra (1992), also posited that; larger boards provide better access to their firm's external environment, acquisition of critical organizational resources and risk reduction needed for the performance of firms. This is due to the fact that, directors are expected to be a vital link between the firm and their networks.

However, larger boards may experience what we call agency and free rider problem. Nanka-Bruce (2009), posited that, "agency problem increases with board size due to the fact that, more conflicting groups represent their own diverse interests, as free riding also increases due to the fact that some directors neglect their control and monitoring responsibilities to other directors on the board". According to Gyakari (2009), "larger boards have larger financial cost burden since they consume more pecuniary and non-pecuniary firm resources in the form of remunerations and perquisites than the very small boards."

These studies, (Yermack, 1996; Eisenberg *et al*., 1998; Loderer and Peyer, 2002; Conyon and Peck, 1998; Hermallin and Weisbach, 2003 and Carline *et al*., 2002), found negative relationship between board size and the performance of firms. However, Aggarwal *et al*. (2007), found no relationship between board size and the performance of firms. So, one will be tempted to ask, what is the optimal board size? It is quite intriguing to provide a specific answer to the question that will fit all firms. This is due to the fact that, firms have different needs and several thinking as well as considerations are made before appointing directors. An instance is the issue of diversity of the firm's operations, skills requirement, regulatory requirements, shareholding structure and size of the company among others, which would surely be taken into account. Studies such as Jensen (1993) recommended a board size of 7 or 8 members whilst Brown and Caylor (2004), argues for a board size of between 6 and 15 members. It would be prudent to have a board size between 7 and 9 members to ensure efficiency and effectiveness of operations for an improved firm performance.

The results indicated positive relationship between board independence and firm performance though not statistically significant. This shows that, the appointment of more non-executive directors to the board would enhance an improved firm performance. This evidence supported hypothesis two (2) which is supported by previous studies (Aggarwal *et al*., 2007; Hossain *et al.*, 2001; Nanka-Bruce, 2009; Kyereboah-Coleman, 2007; and Rechner and Dalton, 1991). The presence of these majority non-executive directors on the board strengthens the independence of the board and enables them to play their monitoring responsibilities effectively and ensures competition among the executive directors which promote firm value maximization (John and Sebet, 1998; Baysinger and Butler, 1985; Rosenstein and Wyatt, 1990; Kaplan and Minton, 1994; Ho and Williams, 2003; Mangena and Chamisa, 2008). Scarborough *et al.* (2010) posits that; "A board with outside members makes it more likely that the board is looking out for the shareholders". They also suggested that, "Board of directors with conflicts of interest will not engage themselves broadly and exercise their legal authority if directors personal interest is at odds with their fiduciary duty to stakeholders". Scarborough *et al.* (2010), further posited that, independent boards promote board activism due to the fact that directors would be able criticize and challenge the decisions of management. The objective criticisms would ensure that management takes the right decision in the interest of stakeholders which would enhance better performance of the firm. In exercising its oversight responsibility over management, an independent board is able to replace poor performing CEOs (Weisbach, 1998). Due to this, the only way to maintain the CEO position is performance. Huson (2001), argues that; independent boards prefer recruiting from external to replace non-performing CEOs rather than internal promotion. This would make sure that the CEO brings new ideas and innovations in improving the performance of the firm. However, other studies (Conyon and Peck, 1998; Ezzamel and Watson, 2002; Weir and Laing, 2000; Haniffa and Hudaib, 2006) found negative relationship between board independence and performance of firms. Non-executive directors may not have total commitment to the goal of the firm because of their other commitments. As a result, they may not be on top of issues affecting the firm and hence limiting their contributions to the performance of the firm. According to Baysinger and Hoskinsson (1990), non-executive directors are limited in scope and understanding of the complexities involved in decision making because they hold of time position Other studies (Kang and Shivdasani, 1995; and Kesner, 1987) could not establish any relationship.

The result of the study further shows that CEOs tenure has a statistical significant positive relationship with return on asset. Hence, the acceptance of hypothesis four. That is, the longer the tenure of CEOs, the better the performance of the firm. This is due to the fact that, if the job security of the CEO is guaranteed, then he or she would be prepared to take better capital investment decisions that would have long term effect on the performance of the firm. It is also imperative that the board should adopt a comprehensive approach in the evaluation of the performance of the CEOs so that they do not only concentrate on short term earnings of the firm but must look into the future for opportunities and benefits that is likely to accrue to the firm from decisions taken.

In addition, the control variables of the size of the firm; has positive relationship with the performance of the firm though not statistically significant. It is an indication that big firms perform better than the small ones. It is due to the fact that; big firms have better and more access to resources, hence would be in a better position to take advantage of investment opportunities as in contrast to small firms. Asset tangibility also shows positive relationship with performance of the firm. Firms with bigger asset base are able to utilize them to generate more resources for the firm as oppose smaller asset base firms. Organizational age also has a positive relationship with the performance of firms, even though not statistically significant. Thus, the older the firm, the better its performance. This is because of the resources and accumulated experiences gotten over the years. Older firms may be enjoying economies of scale which would enhance their performance. Investor confidence and goodwill from customers of older firms would be much better and higher than that of the new and upcoming firms.

Audit Committee Factors

Results of our study have indicated a significant positive relationship between the size of the audit committee and the performance of the firm as shown in table 4 below. Hypothesis five (5) is therefore accepted. The integrity of the financial statements is ensured with the oversight responsibility of the audit committee over the financial reporting of the firm. It also enhances the transparency processes in the preparation of the financial statements. Carcello and Neal (2000), posits that; audit committees through effective performance of their monitoring responsibilities, would give an assurance of the quality of financial reporting and firm accountability. According to Kalbers and Forgarty (1993), the responsibilities of the audit committee included an oversight of financial reporting, internal controls and external auditor. The size of the audit committee does not depend only on its responsibilities and authority but also on the size of the board and the firm (Braiotta, 1999). However, the size of

Table 4: Audit Committee Factors

Independent Variable	Dependent Variable	
	Return on Assets (ROA)	**Return on Equity (ROE)**
Audit Committee Size	-0.023	0.123
	0.042**	0.037**
Audit Committee Independence	0.082	0.294
	0.478	0.027**
Size of the Firm	-0.007	-0.009
	0.046**	0.0632
Asset Tangibility	-0.424	-0.143
	0.018**	0.044**
Organizational Age	-0.003	-0.003
	0.113	0.44**
R	0.373	0.574
R-Squared	0.154	0.344
Adjusted R-Square	-0.182	0.881
S.E of Regression	0.265	0.537

**Indicate 5% significant level

the audit committee must include directors with necessary qualifications.

In addition, the results indicated a positive relationship between audit committee independence and the performance of the firm which support hypothesis six (6), hence its acceptance. This result is expected because of the sensitive nature of the committee's duties hence, it is very important that; the committee is highly independent of management to ensure transparency and; also, be an efficient and effective monitor (Klein, 1998). Earlier studies (Carcello and Neal, 2000; McMullen, 1996), found evidence that suggest that, firms with reliable financial information, are most likely to have independent audit committees. Klein (2002) posits that; the problem of earnings management could be reduced if the audit committee is independent, and hence ensures an improved transparency. The independence of the audit committee is however compromised when there is a technical deficiency of the board, and executive directors are included on the committee. In ensuring a total or complete independence of the audit committee, the committee should be entirely made up of non-executive directors.

Ownership Factors

Our results indicate a statistically significant positive relationship between foreign ownership and performance of firms in table 5 below. Therefore, the acceptance of hypothesis seven (7). This is a sure indication that foreign investors bring about improvement in the performance of firms. Foreign investors bring in the financial resources in support of the capital base of the local firms which helps them to acquire the necessary assets and the human resources needed to enhance its performance. Depending on the foreign investors ownership agreement, foreign investors may have representative in management and on the board through which they influence decision making. Pallathitta (2005), posits that; foreign ownership goes beyond financial involvement and extends to the provision of technical group effort and managerial expertise. These leads to firms beginning to do things differently which enhances the effectiveness and efficiency of the operational processes of the firm leading to the improvement in the performance of the firm. In an attempt to protect and safeguard their investment and to ensure better yield, foreign investors would normally come out with stringent monitoring measures to enhance a higher firm performance rather than poor performance. Djankov and Hoekman (2000), find a positive relationship between foreign ownership and the provision of generic and specific knowledge to local firms.

Additionally, the presence of institutional ownership leads to an improvement in the performance of firms as shown by the result of our study which indicated a positive relationship between institutional ownership and firm performance, hence the acceptance of hypothesis eight (8). Institutional investors have the incentive to monitor management performance due to their economic interest and thereby reducing the information asymmetry associated with the separation of control and ownership. Several studies (Pallathita, 2005; Short *et al*., 2002; Tong and Ning, 2004; Ozkan, 2006, and Pound, 1988), emphasized the important role of institutional investors in

Table 5: Ownership Factors

Independent Variables	Dependent Variables Return on Assets (ROA)	Return on Equity (ROE)
Foreign Ownership	-0.324	-0.883
	0.024**	0.003**
Institutional Ownership	-0.549	0.934
	0.09**	0.126
Annual General Meeting	-0.214	-2.348
	0.643	0.008**
Dividend Policy	0.428	0.549
	0.024**	0.129
Size of the Firm	-0.023	-0.066
	0.043	0.018
Tangibility of Assets	0.078	0.179
	0.440	0.338
Organizational Age	-0.013	-0.034
	0.040**	0.024**
R	0.882	0.934
R-Squared	0.593	0.723
Adjusted R-Square	0.348	0.543
S.E of Regression	0.194	0.438

**Indicate 5% significant level

monitoring management activities through their representation on the board. Institutional investors, through their activities are able to increase the performance of the firm (Shleifer and Vishny, 1986; Barucci, 2005). However, Tong and Ning (2004), as well as Al-Najjar (2010) found negative relationship between performance of the firm and institutional shareholdings.

Furthermore, the result indicated positive relationship between performance of the firm and annual general meeting confirming hypothesis nine (9), hence its acceptance. This evidence is in support of Dar *et al*. (2011) who finds positive relationship between return on equity and shareholders annual general meeting. Annual general meeting is the highest decision making body of the firm where directors present report of their stewardship on the principal activities during the year under review for the assessment by shareholders. The directors therefore prove their accountability by reporting their achievements vis-à-vis key performance measures in both financial and non-financial expressions (Pitchfoth, 1994). Cordery (2005), posited that; annual general meeting is an accountability mechanism whereby the directors are held accountable on their stewardship to shareholders. Annual general meeting is a key component of good corporate governance and it enhances the transparency process in the governance of the firm. Appointment and removal of directors, auditors as well as fixing their remuneration are major decisions taken by shareholders at the annual general meeting, hence the importance of annual general meeting to the performance of firms.

Also, the result has shown positive relationship between dividend policy and performance of firms, hence the acceptance of hypothesis ten (10). This evidence is backed by previous studies (Baker *et al.*, 1985; Pruitt and Gitman, 1991), which recommended that profit is an indicator of dividend payment. If the dividend policy of the firm is more arranged in a line towards payment of higher percentage of profit to shareholders as dividend, it would in a way motivate management to perform better due to the payment of dividend which serves as information to the shareholders about the performance of management. The announcement of the payment of dividend would hint to potential investors about the future earnings of the firm and would be willing to invest more in the firm. This would enhance the share price of the firm and the shareholders stand to profit from the appreciation in their share value. This would also make the firm more attractive to investors and makes it easy for the firm to raise additional capital or funds to support its operations and help enhance its performance.

CONCLUSION

Adoption of good corporate governance practices enriches transparency of the firm's operations, ensures accountability and improves firm's profitability. It also enhances the protection of the interest of shareholders by supporting their interests with that of the managers. The study generally investigated or examines the relationship between corporate governance and the performance of the banking sector in Ghana. The results indicated that, generally corporate governance has positive impact on profitability. The factors of board size, CEO tenure, size and independence of the audit committee, foreign ownership, institutional ownership, annual general meeting; and dividend policy, all have positive correlation with the performance of banks.

The findings show that the banks must have the right board size which is largely independent from the management of the firm. The appropriate skills of board members would ensure that the board is well diversified and have the competence to give strategic direction of the firm. This would ensure that, the board is able to monitor management and also ensure that the internal controls are well formulated and working well. The periodic or annual reports and financial statements of the firms are the main means of communication between the company and the stakeholders. The sensitive duties and role of the audit committee therefore, is by ensuring that the financial statements show the true and fair view of the firm's performance which cannot be overemphasized. The audit committee must be well constituted to increase its independence and with the appropriate size. Additionally, evidence shows that the foreign and institutional shareholders convey a lot of opportunities to the firm and enhances the firm's performance. The firms should develop measures to attract and tap these all-important segments of investor population.

Also, the result is an indication that; the banks are well positioned to support economic growth and development of Ghana. With good corporate governance practices, the firms would be able to generate more resources to create employment opportunities, support businesses through giving of credit and support to small and medium scale enterprises in terms of financial advice or serve as a financial advisory body to firms, pay dividend to shareholders and generate more tax revenue to the government. Through effective and efficient management of their financial resources, banks would be in a better position to support the investment growth in the economy through their financial intermediary role by channeling resources to critical sectors and areas of the economy.

Nevertheless, the study could not examine the other corporate governance characteristics due to data restrictions. Hence, the main factors such as insider ownership, nomination committee, CEOs remuneration, remuneration committee, capital structure, disclosure and frequency of board meetings among others could not be included. Also, since only five of the twenty-one firms studied are listed on the Ghana stock exchange, we could not use market performance measures. Additionally, the performance of the firm is influenced by more factors rather than just good corporate governance. Issues of legal, social, economic and the political environment are equally and very important. It is therefore recommended that future research should consider some of these factors in exploring the impact of corporate governance on the performance of firms.

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