

DO BOARDS AND CEOs MATTER FOR BANK PERFORMANCE?: A COMPARATIVE ANALYSIS OF BANKS IN GHANA

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Abstract

Corporate governance has dominated the development agenda of most developed and developing economies due to the fact that corporate governance structure of a firm has critical impact on the responsive ability of a firm to external factors that impinge on its performance. Well governed firms have been noted to have higher firm performance. On the backdrop that Banks do play a critical role in any economy and have peculiar characteristics, this study uses panel data covering the eleven year period, 1990 – 2001, for a comparative analysis of listed and non-listed Banks by examining the impact of board size, board composition, CEO duality and CEO's tenure of office, on performance measures namely ROA, and change in interest income. Though, largely mixed results are obtained, the findings of the study overwhelmingly suggest that banks should operate with moderate board sizes hovering around ten and should adopt the two-tier board structure for enhanced performance.

Keywords: *Corporate Governance, Bank-Performance, Ghana*

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1.0 Introduction

There has been a great deal of attention given to the issue of corporate governance in recent times. Banking supervision cannot function as well if sound corporate governance is not in place, and consequently, banking supervisors have strong interest in ensuring that there is effective corporate governance at every banking organization. Changes in bank ownership during the 1990s and early 2000s substantially altered governance of the world's banking organizations. These changes in the corporate governance of banks raise very important policy research questions. The fundamental of such questions is, how do these changes affect bank performance?

One must point out that the concept of corporate governance has been a priority on the policy agenda in developed market economies for over a decade especially among very large firms. Further to that, the concept is gradually warming itself as a priority in the African continent. Indeed, it is believed that the Asian crisis and the relative poor performance of the corporate sector in Africa have made the issue of corporate governance a catchphrase in the development debate (Berglof and von Thadden, 1999). A number of recent studies show that good corporate governance increases valuations and boosts the bottom line. For example, a study by Gompers *et al* (2003) showed that companies with strong shareholder rights yielded annual returns that were 8.5 percent greater than those with weak rights. Related to that, it was also observed that the more democratic firms also enjoyed higher valuations, higher profits, higher sales growth, and lower capital expenditures.

Again, poorly governed firms are expected to be less profitably, have more bankruptcy risks, lower valuations and pay out less to their shareholders, while well-governed firms are expected to have higher profits, less bankruptcy risks, higher valuations and pay out more cash to their shareholders. Claessens (2003) also argues that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. The position has been stated that, weak corporate governance does not only lead to poor firm performance and risky financing patterns, but are also conducive to macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity (Donaldson, 2003).

Several events are responsible for the heightened interest in corporate governance especially in developing countries such as Ghana. First, there has been a proliferation of scandals and crises across the globe in which the behaviour of the corporate sector affected entire economies and deficiencies in corporate governance endangered the stability of the global financial system. Second, the private, market-based investment process is now more important for most economies than it used to be, and that the entire process is underpinned by better corporate governance. With the size of firms increasing and the role financial intermediaries growing, mobilization and allocation of capital have become more complex as a result of liberalization of financial and real markets, structural reforms including price deregulation and increased competition. These developments have the monitoring of the use of capital more complex in certain ways, enhancing the need for good corporate governance (Claessens, 2003).

In spite of the benefits of good corporate governance, developments in the Ghanaian banking industry show that absence of good corporate governance could probably be responsible for the dismal performance of the industry a catalyst for economic growth. Given the nature of banking

business and the antecedents of the operators of Ghanaian banks, corporate governance is fundamental to the nation's financial stability.

It is in this light that this study is being carried out basically to examine the role of boards and CEOs in the performance of the Ghanaian banking sector. The rest of the paper is organized as follows: Section two deals with literature review; section three looks at methodology, data analysis and discussion while section four draws conclusions, policy implications and suggestion for a new research focus.

2.0 Review of literature

In the banking industry, research has shown that well-functioning banks promote economic growth. When banks efficiently mobilize and allocate funds, this lowers the cost of capital to firms and accelerates capital accumulation and productivity growth. In addition, banks play important roles in governing firm to which they are major creditors and in which they are major equity holders (Caprio, Leaven and Levine, 2004). Thus, if bank managers face sound governance mechanisms, this enhances the likelihood that banks will raise capital inexpensively, allocate society's savings efficiently, and exert sound governance over the firm they fund.

It is an acknowledged fact that the principal-agent theory is generally considered as the starting point for any debate on the issue of corporate governance. Indeed, the theoretical underpinnings for the extant research in corporate governance come from the classic thesis, *"The Modern Corporation and Private Property"* by Berle & Means (1932). The thesis describes a fundamental agency problem in modern firms where there is a separation of ownership and control. It has long been recognized that modern firms suffer from a separation of ownership and control. They are run by professional managers (agents), who are unaccountable to dispersed shareholders (principals). This view fits into the principal-agent paradigm. In this regard, the fundamental question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory? The principals in this wise are confronted with two main problems. First, they face an adverse selection problem: selecting the most capable managers. They are also confronted with a moral hazard problem: giving the managers the right incentives to put forth the appropriate effort and make decisions aligned with shareholders interests (e.g., take the right amount of risk and do not engage in empire building).

Jensen & Meckling (1976) further define agency relationship and identify agency costs. Agency relationship is 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"*. Conflict of interests between managers or controlling shareholder, and outside or minority shareholders refer to the tendency that the former may extract *"perquisites"* (or perks) out of a firm's resources and 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 interests between the principal and the agent. The share price that shareholders (principal) pay reflects such agency costs. To increase firm value, one must therefore reduce agency costs. This is one way to view the linkage between corporate governance and corporate performance. Fama (1980) aptly comments that separation of ownership and control can be explained as a result of *"efficient form of economic organization"*.

One difference between countries corporate governance systems is the differences in the ownership control of firms that exist across countries. Systems of corporate governance therefore can be distinguished according to the degree of ownership and control and the identity of controlling shareholders. While some systems are characterized by wide dispersed ownership (outsider systems), others tend to exhibit concentrated ownership of control (Insider systems). In the Outsider systems of corporate governance especially in USA and UK, there exist a basic conflict of interest between strong managers and widely dispersed weak shareholders. On the other hand, in Insider systems (notably Germany and Japan), the basic conflict is between controlling shareholders (or blockholders) and weak minority shareholders.

Again, the Companies Code makes provision for the appointment of executive directors by allowing directors to hold concurrently with the office of director, any other office or place of profit in the company, except the office of auditor. In the case of board structure based on duality or otherwise of the CEO, Companies Code does not prevent the appointment of the same person to the two offices. The SEC Code on the other hand advocates for but does not insist on the two-tier board structure where the CEO is different from the board chairman. On the whole corporate governance structure development in Ghana have been somewhat modest, there is need for more advancements in corporate governance issues given the effect these have on firm performance.

3.2 Defining Corporate Governance

The concept “corporate governance” has attracted various definitions. Metrick and Ishii (2002) define corporate governance from the perspective of the investor as “both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investment”. The implication of this definition is that corporate governance has an impact on a firm’s ability to access the capital market. Metrick and Ishii argue that firm level governance may be more important in developing markets with weaker institutions as it helps to distinguish among firms. Cadbury Committee (1992) defines corporate governance as “the system by which companies are directed and controlled”. Zingales (1998) also defines a governance system as “the complex set of constraints that shape the ex-post bargaining over the quasi rent registered by the firm”.

According to Mayer (1997), corporate governance is concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms are run for the benefit of investors. Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society’s conception of the scope of corporate accountability (Deakin and Hughes, 1997). It has also been defined by Keasey *et al* (1997) to include ‘the structures, processes, cultures and systems that engender the successful operation of organisations.’ Corporate governance is also seen as the whole set of measures taken within the social entity that is an enterprise to favour the 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 consideration what they have brought to the organization (Maati, 1999).

In the light of the foregoing analysis, it may be stated more generally that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by

defining the nature of the relationship between the company and key corporate constituencies. Thus, corporate governance systems may be thought of as mechanisms for establishing the nature of ownership and control of organisations within an economy. In this context, 'corporate governance mechanisms are economic and legal institutions that can be altered through the political process - sometimes for the better' (Shleifer and Vishny, 1997). Company law, along with other forms of regulation (including stock exchange listing rules, and accounting standards), both shape and is shaped by prevailing systems of corporate governance. The impact of regulation on corporate governance occurs through its effect on 'the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Deakin and Slinger, 1997). Corporate governance describes how companies ought to be run, directed and controlled (Cadbury Committee, 1992). It is about supervising and holding to account those who direct and control the management.

3.3 Corporate governance and Firm performance

Previous empirical studies have provided the nexus between corporate governance and firm performance (see Yermack (1996, Claessens et al., 1999; Klapper and Love, 2002; Gompers et al., 2003; Black et al., 2003 and Sanda et al (2003) with inconclusive results. Others, Bebchuk & Cohen (2004), Bebchuk, Cohen & Ferrell (2004) have shown that well governed firms have higher firm performance. The main characteristic of corporate governance identified in these studies include board size, board composition, and whether the CEO is also the board chairman.

There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. However, recent thinking has leaned towards smaller boards. Jensen (1993) and Lipton & Lorsch (1992) argue that large boards are less effective and are easier for a CEO to control. When a board gets too big, it becomes difficult to co-ordinate and process problems. Smaller boards also reduce the possibility of free riding by individual directors, and increase their decision taking processes. Empirical research supports this. For example, Yermack (1996) documents that for large U.S. industrial corporations, the market values firms with smaller boards more highly. Eisenberg et al. (1998) also find negative correlation between board size and profitability when using sample of small and midsize Finnish firms. In Ghana, it has been identified that small board sizes enhances the performance of MFIs, Kyereboah-Coleman and Biekpe, (2005). Mak and Yuanto (2003) echo the above findings in firms listed in Singapore and Malaysia when they found that firm valuation is highest when board has five directors, a number considered relatively small in those markets. In a Nigerian study, Sanda et al (2003) found that, firm performance is positively related with small, as opposed to large boards.

Though the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outsiders has been well researched, yet no clear conclusion is reached. On the one hand, inside directors are more familiar with the firm's activities and they can act as monitors to top management if they perceive the opportunity to advance into positions held by incompetent executives. On the other hand, outside directors may act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization (Fama, 1980). John and Senbet (1998), argue that boards of directors are more independent as the proportion of their outside directors increases. Though its been argued (Fama & Jensen 1983,

Baysinger and Butler 1985, Baysinger & Hoskinsson, 1990, Baums 1994) that the effectiveness of a board depends on the optimal mix of inside and outside directors, there is very little theory on the determinants of an optimal board composition (Hermalin & Weisbach 2002).

A number of empirical studies on outside directors support the beneficial monitoring and advisory functions to firm shareholders (see Brickley & James 1987; Weisbach 1988; Byrd & Hickman 1992; Brickley et al. 1994). Baysinger & Butler (1985) and Rosenstein & Wyatt (1990) showed that the market rewards firms for appointing outside directors. Brickley et al (1994) found a positive relation between proportion of outside directors and stock-market reactions to poison pill adoptions. Also Kyereboah-Coleman and Biekpe (2005) found a positive relationship between proportion of outside board members and performance of MFIs in Ghana. However, Forsberg (1989) found no relation between the proportion of outside directors and various performance measures. Hermalin & Weisbach (1991) and Bhagat & Black 2002 found no significant relationship between board composition and performance. Yermack (1996) also showed that, the percentage of outside directors does not significantly affect firm performance. This was also confirmed by Kyereboah-Coleman and Biekpe (2005) when studying non-traditional export firms in Ghana. Agrawal & Knoeber (1996) suggest that boards expanded for political reasons often result in too many outsiders on the board, which does not help performance.

Considerable attention has been given to the role of boards in monitoring managers and in removing non-performing CEOs. Jensen (1993) voices his concern that a lack of independent leadership makes it difficult for boards to respond to failure in top management team. Fama & Jensen (1983) also argue that concentration of decision management and decision control in one individual reduces board's effectiveness in monitoring top management. Thus, the literature reveals a board structure typology, the one-tier system and the two-tier system. In the one-tier system the Chief Executive Officer (CEO) is also chairman of the board, whilst the two-tier system has a different person as the board chairman and is separate from the CEO. It has been noted though that the one-tier board structure type leads to leadership facing conflict of interest and agency problems (Berg & Smith 1978, Bickley & Coles 1997) thus giving preference for the two-tier system.

Agency problems tend to be higher when the same person holds both positions. Yermack (1996) argue that, firms are more valuable when the CEO and board chair positions are separate. Relating CEO duality more specifically to firm performance, researchers however find mixed evidence. Daily & Dalton (1992) find no relationship between CEO duality and performance in entrepreneurial firms. Brickley et al. (1997) show that CEO duality is not associated with inferior performance. Rechner & Dalton (1991), however, report that a sample of Fortune 500 companies with CEO duality have stronger financial performance relative to other companies. Goyal & Park (2002) examine a sample of U.S. companies and find that the sensitivity of CEO turnover to firm performance is lower for companies without CEO duality. Sanda et al (2003) found a positive relationship between firm performance and separating the functions of the CEO and Chairman. Kyereboah-Coleman and Biekpe (2005) realized that whiles CEO duality is positively important for MFIs, it is relatively inconclusive on several performance measures in the non-traditional export sector in Ghana.

Klapper and Love (2002) examine corporate governance and performance in a sample of firms in 14 countries, most of which are developing economies. They find that better corporate

governance is associated with better performance in the form of Tobin's q and ROA and that good governance seems to matter more when the legal environment of a country provides investors with weaker protections.

Related to the above discussion, John and Senbet (1998) provide a comprehensive review of the Stakeholders theory of corporate governance. The main issue raised in the theory is the presence of many parties with competing interests in the operations of the firm. They also emphasized the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance. Jensen (2001) critique the Stakeholders theory for assuming a single-valued objective. They, thus, propose an extension of the theory called an enlightened stakeholder theory. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et al 2003).

Corporate governance generally refers to the set of mechanisms that influence decisions made by managers when there is a separation of ownership and control. As discussed above, some of the conventional variables used as measures of corporate governance are Board size, Board composition and CEO duality.

Even though, corporate governance is considered to involve a set of complex indicators which face substantial measurement error due to the complex nature of the interaction between governance variables and performance indicators; the purpose of this paper is to examine the influence of Boards and CEOs on Bank performance. In this regard, the study looks at governance variables namely Board size (BDS), Board composition (BDC), and CEO duality (CEO) and CEO's tenure of office (CET) have on performance variables of Return on Assets (ROA), and Change in interest income (CIN), giving due recognition to some control variables such as the size of the firm (SZE), and the Debt structure (DTB). The variables are carefully chosen because of data availability and measurement.

3.0 Methodology, data analysis, and discussion

The study uses secondary data based on the financial statements of all the 18 banks made up of listed and non-listed. The banks are being treated separately because of their huge debt structure which is very much different from the other firms, consistent with studies by Faccio and Lasfer (2000). Data for the study covers the eleven year period from 1990 to 2001. The governance data and variables were also obtained through the administration of questionnaire and personal interview. We employ a modified version of the econometric model of Miyajima et al (2003) which is given as follows:

$$Y_{it} = \beta_0 + \beta_1 G_{it} + \beta_2 C_{it} + e \dots\dots\dots 1$$

Where Y_{it} represents firm performance variables; Return on Assets (ROA), and Change in interest income (CIN), for firm i in time t. G_{it} is a vector of corporate governance variables; Board Size (BDS), Board Composition (BDC=number of outside directors/total number of directors), a dummy variable (CEO) to capture if the board chairman is the same as the CEO or otherwise, CEO's tenure of office (CET) and e, the error term. C_{it} is a vector of control variables; Size of the firm (SZE), and the Debt structure of these firms (DTB).

4.1 Variables and explanation

The variables for the study were chosen based on data availability and computational purposes.

4.1.a Firm performance variables

ROA=this is defined as return on assets and is computed by dividing profits before interest and tax payments by total assets;

CIN=Change in interest income, and is calculated by dividing the difference between current year's interest income and previous year's interest income by the previous year's interest income.

4.1.b Governance variables

BDS=this is the number of members serving on a firm's board;

BDC=the board composition is the ratio of outside directors to the total number of directors (i.e. number of outside directors divided by total number of directors)

CEO=this is a dummy variable which takes the value of 1, if the CEO combines as the board chairman and 0 if there are different people occupying the two positions of CEO and board chairman

CET=this is a measure of the tenure of office of a CEO

4.1.c Control Variables

SZE= this is the size of the firm measured by the value of its asset base. For the regression analysis, we take the log of the assets because the values are widely spread;

DTB=this the debt structure of a firm measured by the total of debts (both short and long term) divided by the total assets.

The essence of the control variables is to give recognition to the fact that the performance of a firm and for that matter listed firms may be influenced by several factors.

The regression is run in a panel manner; various options of panel data regression were run, fixed effects, random effects, OLS, GLS and a dynamic panel. The most robust of all was the GLS panel. Thus, we report results of the GLS panel regression in the subsequent tables.

4.2 Data analysis and discussion

Table 1: Descriptive statistics of dependent and independent variables

	Min	Mean	Median	Std. Dev.	Max.	Jarque-Bera	Kurtosis
BDS	4.0	9.819	9.00	2.6856	15.0	3.989804	2.573916
BDC	0.066	0.248	0.143	0.3113	1.43	699.4256	11.83666
CEO	0.0	0.889	1.00	0.3154	1.00	249.0938	7.125000
CET	2.0	2.50	2.00	0.603	4.00	15.07258	2.609467
ROA	-0.29	0.27	0.038	1.303	10.5	8103.215	37.86725
CIN	-0.999	0.465	0.38	0.491	2.98	142.7990	7.167929
SZE	22801	1.21	38113	2.67	1.85	2102.443	20.14373

Of the banks studied, the mean board size is about 10 with the maximum and minimum being 15 and 4 respectively. This suggests that, on the average, banks in Ghana have moderate board sizes. This is good in respect of the performance of these banks because it supports recent thinking about board sizes. On board composition, the study shows that an average of 25% of all board members are outsiders which suggests that these boards are relatively not independent. This is because, studies have shown that the more outsiders there are on a board, the more independent the board is (John and Senbet, 1998).

The study also points to the fact that CEOs' tenure in office does not exceed 4 years, with the average tenure being 3 years. The average figure is encouraging because it affords a CEO the opportunity to see through a project or vision deemed to be important for the enhancement of the performance of the bank.

The firms used for the study on the average have been performing quite well with an annual average ROA of 27.2%. The maximum on this performance variable is 105% with a minimum of -29%. On the change in interest income front, the mean performance of 46.5% is encouraging.

Sampled firms were of varied sizes indicated by their asset base. Most of these banks also have most of their capital in debt as against equity.

Of the governance variables, board size, and the tenure of CEO are normally distributed shown by their Jarque-Bera and Kurtosis values. The rest of the governance variables and together with the performance variables appear leptokurtic (peaked).

4.3 Regression results and discussion

Table 2 is the presentation of the interaction of ROA in the over all sample and the governance variables. The result point to a positive relationship existing between the board size and this performance measure. This situation in the over all sample was also seen in both listed and non-listed banks (see tables I and II in appendix). The result is rather surprising and contrary to studies conducted by Jensen (1993), Lipton & Lorsch (1992), and Yermack (1996). However, this confirms studies that support the view that larger boards are better for corporate performance because members have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate and that the larger the size of the board, the better the performance.

On board composition, the study shows that the more outsiders there are on a bank's board, the worse the performance in terms of ROA. The implication is that when a board is deemed independent, performance of banks is worse. This was corroborated once again by the results of the listed and non-listed banks. While, this is consistent with findings by Agrawal & Knoeber (1996) who suggest that boards expanded for political reasons often result in too many outsiders on the board, which does not help performance, it contradicts other empirical studies by Brickley & James (1987), Weisbach (1988), Byrd & Hickman (1992), and Brickley et al. (1994) on outside directors support the beneficial monitoring and advisory functions to firm shareholders.

On CEO duality, the results of the study suggests that the two-tier board typology is positively related to ROA for the over all sample and again for non-listed banks, implying that when a CEO doubles as the board chairman performance worsens. This is consistent with studies which have found out that the one-tier board structure type leads to leadership facing conflict of interest and agency problems (Berg & Smith 1978, Bickley & Coles 1997) thus giving preference for the two-tier system. Again, it has been argued that problems tend to be higher when the same person holds both positions. Yermack (1996) equally posits that, firms are more valuable when the CEO and board chair positions are separate. Within a developing country context, Sanda et al (2003) in a Nigerian study found a positive relationship between firm performance and separating the functions of the CEO and Chairman. Significantly, the study shows that for listed banks, the two tier-board structure typology rather negatively affects ROA which supports other studies such as Daily & Dalton (1992) who find no relationship between CEO duality and performance in entrepreneurial firms, and Brickley et al. (1997) show that CEO duality is not associated with inferior performance.

The study points to the fact that the tenure of a CEO has a negative impact on ROA as a performance variable, meaning that the longer the length of CEO's tenure, ROA decreases. Whiles, this is significant in the over all sample; it is insignificant in both the listed and non-listed banks as the results indicate. This however, contradicts the popular conventional wisdom that suggest that the longer the tenure, the better the experience, coupled with contacts that could have been built, which inevitably enhances performance. The above is presented in table 2 as follows.

Expectedly, the size of a bank measured by its asset base has a positive impact on ROA. Indeed, this may be explained by the reason of a large bank's ability to accommodate shocks and cope with inherent risk in the sector. Again, and significantly, the more debt there is on a bank's capital structure, the better the ROA as a performance variable. This results confirm findings by Hadlock & James (2002), Petersen and Rajan (1994) and Roden and Lewellen (1995), who posit that profitable firms use more debt and suggesting that that profitable firms depend more on debt as their main financing option

Table 2:Dependent Variable: ROA (**Overall sample**)

White Heteroskedasticity-Consistent Standard Errors and Covariance.				
Variable	Coefficient	Std.Error	t-statistic	Prob.
BDS	0.004611	0.001275	3.617144	0.0004
BDC	-0.004646	0.002574	-1.805276	0.0732
CEO	0.036742	0.007253	5.065952	0.0000
CET	-0.019140	0.004275	-4.476673	0.0000
LOG(SZE)	0.010220	0.000894	11.42525	0.0000
DBT	0.052443	0.002177	24.08726	0.0000
C	-0.166449	0.031722	-5.247072	0.0000

Weighted Statistics.			
R-squared	0.395393	Mean dependent var	0.301033
Adjusted R-squared	0.368914	S.D dependent var	0.533415
S.E of regression	0.423750	Sum squared resid	24.600025
F-statistics	14.93227	Durbin-Watson stat	0.760005
Prob(F-statistic)	0.000000		

Table 3 which is an interaction between change in interest income (CIN) which represents turnover of the banks and the governance variables reveal interesting results. In the over all sample, the size of the board is negatively related to CIN. It is evident that the larger the size of the board, the worse the performance of banks in Ghana. This is consistent with studies by Jensen (1993) and Lipton & Lorsch (1992) who argue that large boards are less effective and are easier for the CEO to control. When a board gets too big, it becomes difficult to co-ordinate and process problems. Further argument is that smaller boards also reduce the possibility of free riding by individual directors, and increase their decision taking processes. Though, in the case of both listed and non-listed banks, the results pointed otherwise but insignificant (see tables III and IV in appendix).

With board composition, the study points to the fact that the independence of the board measured by more outsiders on a board enhances a bank's performance both in the over all sample and the non-listed banks confirming findings by Brickley & James (1987), Weisbach (1988), Byrd & Hickman (1992), and Brickley et al. (1994), Baysinger & Butler (1985) and Rosenstein & Wyatt (1990). For the listed banks, the results showed otherwise and significant too.

Surprisingly, the two-tier board structure, where there are separate personalities occupying the positions of board chairman and CEO, the result shows a negative relationship with CIN, though it is significant only in the case of the non-listed banks. This rather contradicts findings by Berg & Smith (1978), Bickley & Coles (1997), Yermack (1996) and Sanda et al (2003).

Conclusively and expectedly, the study shows that the longer the CEO tenure of office the better the performance of a bank in Ghana. This was observed in the case of the over-all sample and also I the case of both listed and non-listed banks. The finding buttresses the fact that the longer the tenure, the better the experience, and that contacts and relationships built over the years will

inevitably enhances performance. However, this was observed to be insignificant in the case of over-all sample.

Both the size of a bank and its debt portfolio showed a negative relationship with CIN. This was rather interesting since it was expected to be otherwise. While, it contradicts other studies, it suggest that size per se may not be beneficial if it is not used properly and also using debt in itself does not improve performance. The situation is not strange because in Ghana some banks with huge asset base do not necessarily outperform the others. It must however be indicated that the two variables were largely insignificant. The table below represents the above.

Table 3:
Dependent Variable: CIN (**Overall sample**)

White Heteroskedasticity-Consistent Standard Errors and Covariance.				
Variable	Coefficient	Std.Error	t-statistic	Prob.
BDS	-0.002923	0.009634	-0.303408	0.7620
BDC	0.320867	0.228185	-1.406173	0.1619
CEO	-0.136461	0.103769	-1.315043	0.1907
CET	0.096403	0.061844	1.558805	0.1213
LOG(SZE)	-0.001725	0.011976	-0.144055	0.8857
DBT	-0.071638	0.064299	-1.114137	0.2672
C	0.324374	0.167993	1.930873	0.0556

Weighted Statistics.			
R-squared	0.072982	Mean dependent var	0.510085
Adjusted R-squared	0.032382	S.D dependent var	0.468153
S.E of regression	0.460510	Sum squared resid	29.05356
F-statistics	1.797608	Durbin-Watson stat	1.689842
Prob(F-statistic)	0.103963		

Conclusion and future research agenda

The banking industry is strategically important to the growth of all sectors of an economy and consequently the desired over-all development of a country necessitates that the sector remains healthy and sound. Thus, one major concern that could undermine the strategic importance of the sector is corporate governance. In this regard corporate governance is crucial for bank performance since it sets the agenda and rules for the effective internal operations of a firm.

The study examined the role of boards and CEOs in the performance of the Ghanaian banking sector. The mean board size for the sample was observed to be about ten. The rather apparent wide deviation of 2.68 suggests that there are wide variations the board size between the cross-sections. For board composition the mean percentage of about 25% implies the use of largely, more inside directors on the board in the overall sample. According to John and Senbet ((1998) boards in the Ghanaian banking industry are relatively less independent. The results showed largely that most of the banks in Ghana adopt the two-tier board structure. The tenure of CEOs

in the Ghanaian banking industry also ranges between two and four years with a mean of about here years. Indeed, banks in Ghana have wide variations in size, and employ almost equal proportions of debt and equity in their capital structure.

The regression results show further that board size is positively related to ROA whether the bank is listed or otherwise. Though, largely insignificant, the board size had a positive impact on both listed and non-listed banks, but showed a negative effect on the overall sample with regards to CIN as a performance variable. The board composition rather pointed out that the more independent the board is, the worse the profitability of a bank both listed and non-listed. On the other hand, it showed a positive impact in the case of the overall sample and the non-listed banks using CIN. There were mixed results with regards to the CEO duality. While, the two-tier board structure had a positive impact on the profitability of the overall sample and non-listed banks, it showed a negative effect in the case of listed banks. With regards to CIN, the CEO duality indicated a negative effect in the case of all the banks. Again, while the CEO's tenure in offices largely indicated a negative impact on ROA, it expectedly showed a positive impact on CIN.

Interestingly, while the size of a bank had an expected positive impact on ROA, it rather showed a negative impact on CIN. Similarly, unlike ROA, the impact of more debt on a bank's portfolio was negative on CIN, while being positive on ROA.

It is obvious therefore that boards and CEOs matter for the performance of the banking sector. Indeed within the governance structures the two-tier board structure is seen to be more effective compared to the one-tier system. The separation of board chairman and chief executive officer minimizes the tension between managers and board members thus influencing positively the performance of microfinance institutions.

From the foregoing analysis, it is evident that there is relatively mixed results regarding corporate governance and various performance measures in the Ghanaian banks. It must however be stated that this is consistent with other studies. However, for efficient performance of banks, the two-tier board structure must be adopted, ensure the independence of the board by employing more outsiders, and maintain smaller board sizes that hovers around ten members.

The relatively mixed results arrived at is an indication that the concept of corporate governance embraces a broader set of variables such as economic and legal environment, progressive practices, existence of internal control measures, ownership and compensation structures within an institution, the nature and quality of information flow and the level of involvement of low level staff in the day to day decisions of a corporate entity. Therefore, subsequent to this work, we would want to develop a corporate governance index by capturing several variables for the banking sector.

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Appendix:

Table I:
 Dependent Variable: ROA (**Non-listed banks**)

White Heteroskedasticity-Consistent Standard Errors and Covariance.				
Variable	Coefficient	Std.Error	t-statistic	Prob.
BDS	0.003717	0.002438	1.524515	0.1302
BDC	-0.024205	0.006384	-3.791776	0.0002
CEO	0.027277	0.013921	1.959505	0.0525
CET	-0.005454	0.009746	-0.559634	0.5768
LOG(SZE)	0.008085	0.000716	11.28893	0.0000
DBT	0.047537	0.004266	11.14217	0.0000
C	-0.137772	0.043037	-3.201204	0.0018

Weighted Statistics.			
R-squared	0.269252	Mean dependent var	0.331705
Adjusted R-squared	0.230451	S.D dependent var	0.520362
S.E of regression	0.456482	Sum squared resid	23.54648
F-statistics	6.939341	Durbin-Watson stat	0.699528
Prob(F-statistic)	0.000003		

Table II:Dependent Variable: ROA (**Listed Banks**)

White Heteroskedasticity-Consistent Standard Errors and Covariance.				
Variable	Coefficient	Std.Error	t-statistic	Prob.
BDS	0.003218	0.002117	1.519756	0.1470
BDC	-0.088445	0.102417	-0.863580	0.3998
CEO	-0.026921	0.009041	-2.977519	0.0084
CET	-0.006175	0.013192	-0.468093	0.6457
LOG(SZE)	0.001124	0.001062	-1.058854	0.3045
DBT	0.022579	0.005884	3.837190	0.0013
C	0.059955	0.041775	1.435177	0.1694

Weighted Statistics.

R-squared	0.807914	Mean dependent var	0.054506
Adjusted R-squared	0.740119	S.D dependent var	0.021442
S.E of regression	0.010931		
Log likelihood	85.28057	Sum squared resid	0.002031
F-statistics	11.91703	Durbin-Watson stat	2.684073
Prob(F-statistic)	0.000028		

Table III:Dependent Variable: CIN (**Non-listed banks**)

White Heteroskedasticity-Consistent Standard Errors and Covariance.				
Variable	Coefficient	Std.Error	t-statistic	Prob.
BDS	0.019411	0.007976	2.433619	0.0165
BDC	0.264881	0.287500	0.921323	0.3588
CEO	-0.283225	0.112787	-2.511158	0.0134
CET	0.180794	0.067743	2.668811	0.0087
LOG(SZE)	-0.019808	0.011917	-1.662104	0.0993
DBT	0.030632	0.059978	-0.510724	0.6105
C	0.295729	0.172594	1.713431	0.0894

Weighted Statistics.

R-squared	0.092163	Mean dependent var	0.476689
Adjusted R-squared	0.043959	S.D dependent var	0.407818
S.E of regression	0.398753	Sum squared resid	17.96749
F-statistics	1.911948	Durbin-Watson stat	1.792196
Prob(F-statistic)	0.084835		

Table IV:Dependent Variable: **CIN (Listed)**

White Heteroskedasticity-Consistent Standard Errors and Covariance.

Variable	Coefficient	Std.Error	t-statistic	Prob.
BDS	0.041352	0.062457	0.662089	0.5168
BDC	-2.549957	1.115819	-2.285279	0.0354
CEO	-0.049091	0.171841	-0.285677	0.7786
CET	0.312357	0.124206	2.514835	0.0223
LOG(SZE)	-0.037348	0.032740	-1.140735	0.2698
DBT	-0.071385	0.147459	-0.484100	0.6345
C	0.943607	0.762119	1.238136	0.2325

Weighted Statistics.

R-squared	0.720189	Mean dependent var	1.369797
Adjusted R-squared	0.621433	S.D dependent var	0.430905
S.E of regression	0.265127		
Log likelihood	6.614433	Sum squared resid	1.194967
F-statistics	7.292566	Durbin-Watson stat	2.004646
Prob(F-statistic)	0.000558		
