KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

CORPORATE GOVERNANCE AND CAPITAL STRUCTURE OF BANKS IN GHANA

BY

MARK PRINCE APPIAH-YEBOAH

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DECLARATION

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

Mark Prince Appiah -Yeboah	…………………..……	…………………..…
(**PG8955119)**	Signature	Date

Certified by

Dr. Kwame Mireku	…………………..……	…………………..…
(Supervisor)	Signature	Date

Certified by

Dr. Daniel Domeher	…………………..……	…………………..…
(Head of Department)	Signature	Date

DEDICATION

This study is devoted to my lovely mother Agnes Yeboah, and my dear Sister Christiana Nyarko Yeboah whom by their support stood by me throughout this program. My dad John K. Yeboah for your financial support. I appreciate your encouragement and advice. Thank you

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This work has been the capsule of a long drive; through which I have realized with the help of individuals who made my vision a reality. Lord am grateful.

My greatest appreciation also goes to my supervisor, Dr. Kwame Mireku for his inspiration, guidance in writing this thesis.

And finally, to my friends, year classmates, I appreciate their encouragement and time spent together. Thank you.

ABSTRACT

Banks play an essential financial function within the economy. The economic growth is a function of an efficient and stable banking system while governance in industries have been explain as how organizations are control. Corporate governance has a link with organization capital structure. When corporate governance is poor, it affects firm's performance and financing decision. The recent financial crises in the banking sector have made it necessary to examine the role of governance and financing pattern in banking industry. The study employs a secondary data from 208 years of observation consisting of 21 banks from 2008 to 2017 using cross sectional fixed effect analysis to establish the association between corporate governance and capital structure. The finding suggests a significant positive association ownership, return on equity and firm size to capital structure. These indicate that banks in Ghana purse debt using these as a mechanism while board size and return on asset also record significant but negative. Though they are negative, it affirms the pecking order theory that state that firms should first finance its project with internal funds before sourcing for alternative. The finding also suggests that board diversity significant and negatively related to capital structure which support the pecking order theory that states that firm should rather use internal funds before they seek for alternative funds.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The financial environment in most part of the world has become more opened to new products of financial innovations and services, as a result of globalization and technological change, particularly in the banking sector. However, drastic collapses of multinational businesses and its replicate effects on cross boarder investments, coupled with sharp decrease in cash inflows in the international financial market over the past decade has necessitated the need for global assessment of corporate governance mechanisms, liquidity management and ownership attributes that have contributed to the draining down of financial resources of banks in an emerging economy. This points to the fact that, sound and resilient financial institutions in developing countries need to have good corporate board of directors and effective capital structures as control and managing mechanisms, to help shape and transform their operational activities to guarantee service quality in the banking industry.

Predominantly, attempts have been made by various researchers and other regulators of financial institutions to promote reconstruction and recapitalization in Africa, where Ghana is of no exception. Prior literature, observed that corporate governance practices, banks operational efficiency and liquidity appears to be the most regular indicators that stimulate corporate failure among banks (Lassoued, 2018; Bourihis and Nabi, 2013; Diaconua and Oaneab, 2014). The financial soundness or health of a bank is mostly known to the management, while customers of the bank do have very little or no information (Fu and Heffernan, 2010). However, it must be appreciated that banking reforms and regulations are implemented to achieve the priority of financial health of the banks and economic efficiency through oversight monitoring.

Corporate governance of financial institutions has also become a major tropical issue and gained much popularity and attention during the high corporate business failure era in most advanced economies, which saw the collapse of giant multinational firms like Enron, WorldCom, Parmalat and many others. The spate of corporate failures was largely blamed on corporate board practices, coupled with insufficient financial statement disclosures identified by researchers, who responded to the issue with research findings concerning how organization should be managed (Act of Sarbanes Oxley 2002). Agyei-Mensah, (2018) noted that weak corporate board structures in most cases are not the only cause to poor financial performance and risky financing of project, but also replicates into macroeconomic crisis that are unimaginable and difficult to handle. But whatever the case may be, advanced and developing countries should place more emphasis on good corporate governance practices as means of enhancing monitoring quality.

Lassoued, (2018) stated that in an opened market economy with viable business opportunities, where there is continuous demand on management to deliver good results, strong corporate board structures become the critical monitoring mechanism in protecting the firm's resources from all kinds of mismanagement and fraudulent activities. It must be appreciated that, effective corporate governance practices and the demand for high level monitoring quality improve corporate accountability, which guarantees the success of any financial institution.

According to Appiah, et al, (2017) good corporate governance practices are control mechanisms that strengthen and promote banking institutions to survive in an increasingly open market economy. It has been seen as organization that are managed effectively turns to enjoy better returns in profits through good sales and low expenditure, and therefore stand to perform better. Today, commercial banks are also into investment portfolios and financial products all aimed at achieving financial stability.

The focus of this study takes a look at the turbulence of Ghana's banking crisis, which had led to the consolidation, merger and takeover of banks, as a result of macroeconomic shocks and capitalization structure. These occurrences within the banking sector demonstrate the reasons why this study should be investigated, particularly as emerging country. To do this, the study use corporate board composition and capital structure to examine how these developments impact on banks in Ghana.

1.2 PROBLEM STATEMENT

Business failures in the world, particularly developing countries has brought a great deal of disappointments to shareholders and other stakeholders in the banking sector. These corporate failures are largely attributed to weak corporate board practices, insufficient financial statement disclosures, lack of audit report quality and operational inefficiencies, which impede the performance of commercial banks and make it difficult to detect problems and early warning signs (BOG Report, 2018). However, very little is known about the specific relationship between corporate governance, ownership and financing decisions in developing countries' perspectives. The closing and withdrawal of bank licenses became a tremor to the public when the news broke out. Argument that emerged after the study of Papademos and Modigliani (1990), financing decision of firm became essentials dialog among corporate policy choice by managers. As much as firms have a choice as to how to combine debt and equity, that would maximize firm value. For the past ten years Ghana has witness three different level of recapitalizations in the banking industry (2007, 2012 and 2017), as part as a move to develop and support the financial sector. The recapitalization moves caused the closing down of 9 banks out of the 34 banks. Other banks that made it through sailed in with the injection of new capital and the support of income surplus. While 5 local banks made it through with the injection of fresh equity capital from some private pension funds (Ghanaweb.com, 2019). Whereas recapitalization of banks in Ghana may seem to address bank stability against risks, managers still do not have a clear guideline that they consult when taking decisions in connection with optimal capital structures. The kind of combination of debt and equity that will reduce the firm cost of capital and improve value and profitability to set firms, the optimal capital structure still remains an empirical one within the financial sector in Ghana. Thus, giving the significance of corporate board attributes and capital structure. It is against this backdrop, that the study seeks to examine the impact of corporate governance and capital structure of banks in Ghana.

1.3 OBJECTIVES OF THE STUDY

The general objective of the study is to examine effect of board composition on financing choices of banks in Ghana. The study period span between 2008 to 2017, for all licensed banks in Ghana. Non-banking institution were completely ignored due to lack of data.

1. To examine the effects of Board Size on Capital Structure of banks in Ghana.

2. To assess the sensitivity of Board Independence on Capital Structure of banks in Ghana.
3. To examine the influence of Gender Diversity on Capital Structure of banks in Ghana.
4. To find out the impact of Firm Ownership on Capital Structure among banks in Ghana.

1.4 RESEARCH QUESTIONS

1. What is the effect of Board Size on Capital Structure of banks in Ghana?
2. What is the influence of Board Independence on Capital Structure of banks in Ghana?
3. What is the influence of Board Gender Diversity on capital structure of banks in Ghana?
4. What is the impact of firm Ownership on the Capital Structure of banks in Ghana?

1.5 SIGNIFICANCE OF THE STUDY

This study aims to add to the knowledge of literature in finance and accounting for Ghana, by widening the accessibility of knowledge on capital structure and corporate governance of banks. Corporate governance activists, academics, Government of Ghana, and commercial banks in general stand to gain from this study. This study would also be of relevance to World Bank and IMF in their quests to implementing macroeconomic policy decisions in Africa.

Secondly, students, researchers, academia, and others would make maximum use of this research work to support their discussions on corporate governance and capital structure topics in Ghana. The numerous changes that have happened in the banking sector in Ghana in recent times would also be relevant to the regulators of banks. The significance of capital choice on commercial banks in Ghana will therefore open the platform for additional research. More importantly, banking sector regulators such as SEC, the Bank of Ghana, and Ghana Banking Association would find relevant information on this document and allow banks authorities in decision making.

This study would further help the banks and non-financial institutions in their pursuit to improve financing decisions. Financial managers would be abreast with corporate governance issues that can protect lasting financial survival of the banks in general. The study's main implication is to provide additional evidence with respect to board quality in national concern with a common Accounting Standards in the presence of a serious economics failure, and its adverse consequences on bank stability. Furthermore, it provides useful insights into questions raised by standard setters and allows regulators to act preventively, amend the regulatory framework, and track the efficiency of various monitoring policy changes. The government of Ghana in their journey to achieve financial sector clean up through economic growth and Technical Corporation, would also find the outcome of the study useful for effective implementation of economic policies.

The study goes beyond present work on corporate governance and capital structure. This will then expand the existing knowledge. Research result have generally act as a guide to policy formulation and decision-making input over the years. The study aims at serving as an additional guide in decision making by banking institutions and the regulatory bodies. The importance of the study lies in the richness of information regarding corporate governance and capital structure on commercial banks. It forecast the finding of the study and this finding will form an empirical stand on the set topic for upcoming researchers. Investors therefore gain insight on things to watch out when investing, since financing decision play a central role in business administration.

Bank of Ghana as an institution with the outcome of this study will place emphasis to strengthen the values of corporate governance on banks. Again, the theory that unpin this study confirm that diversity bring different opinion to the board, therefore BoG will consider in promoting quota for women on the board. The study stands to benefit corporate governance activist, academics, and the international organizations. This study would also be relevance to World Bank, and IMF in their quest of implementing macroeconomic policy decision in Africa.

Students, researchers, and academia and others would make maximum use of this research work to support their discussions on CG in Ghana banking sector. The numerous changes that have occurred in the banking sector in Ghana in recent times will make the study relevant to the regulators of banks. The study is likely to be the first to report empirically, the significance or otherwise of board committee of commercial Bank in Ghana. This therefore would open the platform or reference source for the future and further research.

1.6 SCOPE OF THE STUDY

This study concentrates on 21 banks licensed by the BoG. Banks that form the bases of this study are those in operation by the close of 2017. This study intends to examine the Corporate governance structures, include board independence, size, board gender diversity, firm ownership and financing decision determinants such as leverage, firm size, firm age, return on assets among others. The study used secondary data extracted from Bank of Ghana website, as well as individual bank websites, which were also consulted for their audited financial reports of the various banks.

1.7 LIMITATION OF THE STUDY

This study intends to examine the Corporate governance structures, include board independence, size, board gender diversity, firm ownership and financing decision determinants such as leverage, firm size, firm age, return on assets among others. The study used secondary data extracted from Bank of Ghana website. Due to resource constraint, the study examines three corporate board attributes, ownership and capital structure in the banking sector in Ghana, and exclude other English-speaking countries in Africa such as South Africa, Nigeria and among others. The study would not take into account external structures of corporate governance. Financial data collected would be annual data basis, instead of monthly or quarterly, which could give different results if used in the case of later under this current circumstance from Ghana.

1.8 BRIEF METHODOLOGY

With an adoption of a descriptive research design. This study precisely describes the effect of corporate governance and financing decision among banks in Ghana. The study was purely quantitative methods because this method allows easy conversion of information obtained into statistical models for general analyses to be made and the research questions. The study used 21 commercial banks in Ghana from 2008 to 2017. Banks that form the bases of this study are those in operation by the close of 2017 financial year. The study also considered banks that were established before or within 2007 financial year in order to have ten (10 year). Purposive sampling was used for the study. According to Saunder et al (2009), Purposive sampling helps to accelerate the data collection process and information accessible for a study.

1.9 ORGANIZATION OF THE STUDY

This work was alienated into five sections. The first section involves general outline, which comprises background of the study, objectives and relevance's of the work. Second section on the other hand focuses on review of literature relating to the topic under review and empirical studies. Three section contains methodology and tools used for analysis of data. The fourth chapter also takes into account the analysis of data and discussions, and finally the last chapter, which evaluates the summary of the study and findings as well as gives relevant recommendations and suggestions.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

At this stage, we will examine studies that touch on this subject. Theories that underline this study are accessed and reviewed, giving facts and findings that support or disagree with the theories discussed. This chapter has been grouped into three parts. The first stage touches on conceptual reviews, highlighting its principles and among others. The second stage looks at theories from global and other local perspective of governance environment. The last stage also discusses empirical findings on the topic.

2.1 CONCEPTUAL REVIEW

2.1.1 Corporate Governances

Unlike other jurisdictions such as the US and the UK, Ghana does not have a single comprehensive corporate governance framework. Relatively, the rules that govern the relationship between corporate organizations can be found in pieces of information in different regulatory instruments hence there is no single overriding set of principles for corporate governance of companies in Ghana. In Ghana, the BOG, (2018) report after the financial crises issued guidelines with respect to corporate governance in financial institutions. The guideline clearly states the roles of each member of the board, their tenure of office and age-limit, board structure among others. Notable among the new structure is capping the tenure of Managing Director or CEO of regulated financial institution at maximum of 12 years divided into three consecutive terms not exceeding four years per term. The report also specified that director shall have maximum of three years per each term. However, no regulated financial institutions shall have more than two (2) members that are related person serving on the same board. Good governance usually "activate when inside system for examines management opportunism have failed" Appiah (2011). Ghana responded to creating of fair business environment with various programs, as it believed could lead to sustainable growth and developments of corporate governance Kyereboah (2008). Appiah (2011), is of the view that the high level of market discipline and the high level of transparency that characterize markets that practice good governance, urges them to strive for good governance.

2.2 FINANCIAL SYSTEM

A financial system is made up of financial institutions and the Stock markets. The system is active when there is; a well-organized channel of exchange for the transfer of assets, helping in the formation of capital in a bigger manner, which is sufficient to please the preferences of the organization Agyei-Mensah (2018). Financial structure in Africa progressed from the olden age, which was active in helping economic development. It has experienced a total revolution to enlighten its capacity for backing up and sustaining commercial development in Ghana.

Ghana's dream to have a stable and well-organized financial area, which would help to administer and generate resources, in a joined financial system, was reinforced by a supervisory and administrative mechanism that encouraged a better level of assurance Agyei and Owusu (2014). At this point, this session explains the development of the Ghanaian financial system, and recognizes activities within the system.

The Financial system is made up of systems for asymmetry setups, monetary transmission in financial institutions around the world. It comprises different mechanisms for effectiveness. For financial system to be effective it must have basic attributes like, monetary structure, opportunity of capital formation and a market for transporting financial assets (Agyei-Mensah, 2018). Most African countries have worked toward achieving all these things after having their independence. Ghana had experience of all these characteristics of well-organized financial sectors in 1954. Shares are aids to the capital structure of firms or proportional rights of a company. Shares are categorized in ordinary and preference. Each share holding member is unique, and their risks also unique. The ordinary shares holders are the commonly traded on the stock market.

In the liquidation process, preference shareholders obtain a proportion of all remaining, before others. Due to ethical nature of securities industries in the world, it is essential to regulate these markets to maintain integrity. Investors' protection and confidence must be supreme, to inspire their constant contribution in the market. BoG and SEC are the bodies that supervise the securities industries. The journey to secure alternative capital has mandated firms to accept governance mechanisms assigned by these monitoring bodies.

Financial sector in the world consist of money and capital markets. Money market deals in securities with maturity of a period between three months to twelve months. The capital market, which is the opposite of the financial market deals in securities with longer periods. Industries in Africa rally their capital funding from the capital market because of the long duration. Banking institutions within Ghana need to be relevant and overcome the problem of recapitalization crisis, or fall on the capital market for funds. In the capital market, companies release shares to raise additional funds, institutions with the ability to borrow also fall on this, through the issue of bonds and others.

(Madura, 2011) argued that due to the duration of borrowing, there was the tendency of misuse of investments in the capital market therefore needed to be effectively managed and checked. The issuers of securities can be classified as the shortfall components that need supplementary funds for their projects. Investors also consists of individuals and corporations; they finance the stock market with the purpose of making revenues or adding value to their investments. The growth of an active stock market stands on the readiness of investors to create demand for stock market instruments.

Make-up of capital structure of firms still stands to be a subject in Ghana. Capital structure attempts to enlighten the funding shape of industries or the grouping of the different arrangements of finance. (Shapiro and Balbirer, 2000) explained capital structure as variety of debt and equity financing, that served as possible funding to fuel the smooth running of business. Financing a business can be grouped into mixtures, ranging from Debt securities, credits, reserved, equities etc (Abor, 2007). Firms have the choice of choosing from available pools condition to the nature of the firm. Abor 2007 points that ideal capital structures improve firms returns.

2.3 THEORETICAL REVIEW

There are many theories from which the concept of board attributes and capital structure can be deduces from. The study examines the research questions posed earlier through a multi-theoretical lens. For the purpose of this research, the Agency theory, Stewardship theory, Resource Dependence, Pecking Order theory and Trade off theory would be considered in theoretical review relating to the research and expected findings there on.

2.3.1 Agency Theory

On the subject matter on corporate governance, it is none than the old approved statement that states that, there is conflict between investors and management. This theory is credit as the birth area of argument discussion on matter relating to CG. Agency relationship is a genial arrangement between one party (owners), and another (mangers), where the manger is hired to work and please the owner. Berle and Gardiner (1968), argued that agency theory is the first theory that needs to be discussed anytime there are matters relating to governance. In line with the study, agency problem is factor through the separation of power and control. In view of the questions that arise is to make sure managers (agents) work in good behaviors that benefit the shareholders (owners). They explained that since shareholders are widespread with different risk capacities, it is difficult to select among them who to manage the firm, thereby delegating it to other people (managers).

The shareholders provide capital for smooth running of the business and expect returns. According to Roman (2013), the principal and agent conflict are often caused by the overconfidence on of the agents who take more risk than what the principal preferred. Kearney (2012), also argued that sometimes, these principal-agent conflict arise as a result of information asymmetry that is disclosing less information which makes the level of transparency become low. The theory is in support of the use of debt. This is because when debt is introduced in the business, it compels management to be on the lookout and help prevent misappropriation. This results to making management to think and act like the investor. This structure allows management to own shares in the same firm, (Jensen and Meckling 1976). In a study, Harris and Raviv (1991) explained that inefficiency reduced when management is given the right to own shares which leads them to become part owners of such firm. This is achieved through holding management investment constant as it increases, debt financing increase and this dulls possible conflict.

2.3.2 Stewardship Theory

As the name suggests, a steward must satisfy, maximize and protect the rights of the shareholder. The stewardship theory is credited to McGragor. The theory looks at the opposite of principal-agent relation. Stewardship looks beyond financial aim, and allows others such as non-financial aims. Daily (2000) believes management is ready to operate the firm and uplift financial performance, when they see themselves as stewards. This goes a long way to minimize transactional costs to monitor the actions of managers because they see themselves as stewards.

Davis et al (1997), explained that, there are forces that influence a behavior of both parties (owner or manger) to act as stewards, which tend to positively impact organizational performances. Madison (2014) in his work stewardship theory integrated conclude that stewardship theory can mostly be found in family organization. Managers' commitment level towards their tasks increases and yields accomplishment when combined with values and stewardship. Literature have summarized different results in connection to stewardship and governance. (Ostroff 1992, Kellermanns and Eddleston, 2007 and Davis et al 1997) all recorded mixed connections among firm performance, ownership concentration and stewardship.

2.3.3 Resource Dependency

Resource dependency is the study on how external resources of organizations affect the behavior of the firms. To survive, organizations needs to interact with those who control resources. This is such that the organization depends much on its environment. The ability to adapt to environmental contingencies, negotiating exchange to ensure continuation of needed resources are the focus of organizations' actions.

Resource dependency is concerned with how to access resources that are available to an organization; which include capital and expertise. In procuring, such external resource is an important tenet of both strategic and tactical management. This theory focuses on the duties of the directors in relation to the capacity of these directors in providing security, oversight and monitoring the organization to improve performance. This theory is based on Pfeiffer and Gerald (1978), which argues organizations choose board because of their individual experiences and expertise. Boards that have rich and experienced resource capacities efficiently affect firm performance. Pfeiffer and Gerald (1978), described organizations as open systems. This shows that firms rely on other firms and environment for the provision of services. Nicholson and Kiel (2003), concluded that board experience and skills connected them to the environment that boost capital and business contacts, as well as good financial reporting. In effect, this theory looks at the role management played in allocating the resource for the firm.

2.3.4 Trade Off Theory

This is the commonly used theory in modern business. Organizations that support the use of trade off believe that such a system of financing help in gain tax protection (Petersen and Rajan, 1994). This explains that if firms select capital make-up to adjust their financial levels for benefit. Ahmadinia, et al. (2012) firms need funds for their daily activities and such can be raised on the stock market. Financial suffering is the source of insolvency, particularly when firms' creditworthiness is uncertain Myers (2001). The tradeoff has been expressed in sign that organization with good credit ratings even do take advantage of the tax protection, using trade off even when they are not struggling with funds (Myers 2001).

2.3.5 Pecking Order Theory

Their position is that, businesses would rather request for other source funding rather than issuing equity, when internal earnings are not enough to finance its operations (Myers 2001). Firms should finance projects first with internal funds, then with safe debt (Ferreica and Vilela, 2004). Managers who use pecking order prefer financing from retained earnings, before moving to debt. This suggests that efficient and gainful firms with good earnings will use less liability in their capital structure, than those with little earnings (Myers and Majluf 1984).

Information asymmetry has an impact on capital structure. This can therefore restrain access to external funds, or even earning, because firms must pay dividends. Firms that use pecking theory focus on the assurance that under such theory, firms have nothing to do with dividend payments, taxes and commissions, but get access to low cost financing back up. Under this theory, shareholders believe that issuance of equity will weaken current owners' voting powers, which may threaten management stand (Baskin, 1987).

2.4 EMPIRICAL LITERATURE

Here, literature reviews on corporate governance, and its links to capital structure. Previous studies have documented different results under the study of corporate governance and financing decisions.

2.4.1 Board Size

Board size computes the total number of directors on the board: both dependent and independent directors Abor (2007). The grouping of both directors is very critical to the formation of the board (Hermalin and Weisbach, 1991). Many scholars have argued that high number of directors should be non-executive, to enhance independency. Even though many scholars have promoted high number of directors, different results have been established under board size and management choices on financing decision. Literature have unfolded many different relationships connecting the size of the board to firm productivity.

Goodstein rt al., (1994) posit that large boards bring variety, coupled with different opinions and ideologies that help companies to reduce risk and clear uncertainties, which in the long run have great effects on productivity. However large board size can be, its own enemy creating difficulty in effective communication and monitoring of the CEO. Large boards then become ineffective in its core duties to monitor management Jensen (1993). This can be described as a weak board, where management seeks its interest rather than that of shareholders (Vafeas, 2000). Small board sizes according to Vafeas lead to quality, efficient and effective ways of monitoring and easy communication among members, leading to faster decisions when the need arises. Abor (2007), study on the stock market using a sample size of 22 firms from 1998 to 2003 concluded that large board size is positive and relates to debt financing. Stating that large board are more established, and therefore through stagnant monitoring trends to approve high debt policy to increase the value of the firm. Arko and Biekpe (2007), using small firms in Ghana found that board size is notable and positively related to capital structure.

Notwithstanding previous outcomes Magadalena, (2012) conducted a research on the Indonesian stock market, and found a negative relationship between the size of the board and capital structure. Guest (2009), affirmed that board size is not linear, and did not add any value to firm using a sample size of 274 firm U.K. Rehman et al (2010) in a study on corporate governance and capital structure using 19 banks in Pakistan from 2005 to 2006, concluded that small board size indicates a weak relationship in firms' capital structure. Mousavi et al (2012) in his study on governance and capital structure on Tehran Stock Market, using 90 companies from manufacturing industries also concluded that the size of the board did not relate to capital structure. Berger and Humphrey (1997) also confirmed that the size of the board had indirect relationship to capital structure and corporate governance, using 452 industrial companies from 1984 to 1991.

Literature have unfolded many different relationships connecting the size of the board to firm productivity. Goodstein et al., (1994) large board bring variety coupled with different opinion and ideology that help companies to minimize risk and eliminate uncertainties, which on the long run have great effect on productivity. However large board size can be its own enemy creating difficulty in effective communication and monitoring of the CEO. Large board then become ineffective in its core duties to monitor management Jensen (1993). This can be described as a weak board, where management seeks its interest rather the shareholder (Vafeas, 2000). Small size according to Vafeas lead to quality, efficient and effective way of monitoring and easy communication among members leading to faster decision when the urgent need arise. In finding whether large or small matters, different results have come under the study of board size and capital structure.

Abor (2007), study on the stock market using a sample size of 22 firms from 1998 to 2003 conclude that board size is positive and relates to debt financing. Stating that large board are more entrench and therefore through stagnant monitoring trend to approve high debt policy to increase the value of the firm. Pfeffer and Salancick (1978), study on effect of ownership and performance on executive tenure in U.S corporation using 84 firms find positive relation between corporate governance and firm performance on the size of the board and performance. Bokpin and Arko (2009) using small firms in Ghana found that board size is significant and positively relate to capital structure. Notwithstanding previous outcomes Magadalena, (2012) conducted a search on the Indonesian stock market and found a negative relationship between the size of the board and capital structure.

Ali-Shah et al (2009) study on impact of ownership structure and corporate governance on capital structure of Pakistani listed companies using a sample size of 58 firms under fixed effect approach concluded that board size has negative relationship to capital structure. Brennam (2006), confirm that board size is not linear and do not add any value to firm using a sample size of 274 firm in Bangladesh. Rehman et al (2010) study on corporate governance and capital structure using 19 banks in Pakistan from 2005 to

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Anderson et al (2004) study on board characteristics, accounting reporting quality, integrity and the cost of debt using a sample of 500 firms conclude that board independence and cost of debt has negative relationship. Ahmed-Sheikh and Wang, (2012) under their study on governance and capital structure concluded that, there is a significant positive relation between the independent nature of the board and debt financing. Abor (2007), study on corporate governance and capital structure on the Ghana Stock Market found a positive relationship between governance and financing decision. Bokpin and Arko (2009) also confirm a positive relation between corporate governance and capital structure using SMEs in Ghana.

2.4.2 Board Independence

Board Independence measures the ratio of non-executive directors who are on the board Abor (2007). This balance of executives should consist of executives' directors and non-executives' directors. The involvement of outside directors is a mean of protecting the organization against self-interest dealings that may poses severe threat to the entity and it available resources. Agyei Mensah, (2018) argued that non- executive directors are members of the entity board who are not employees and therefore served as effective control mechanisms. Despite the numerous researches on the effects of board independence and performance of firms there is still mixed conclusion on the outcome of various studies.

Anderson et al. (2004), argued that formation of a board that comprises workers or works relating to directors will conceal information, in order to benefit directly or indirectly, and hide such dealing from stakeholders. Board directors' role consist of serving management and stakeholders through monitoring and disclosing financial and non-financial resources. For a board to be effective, members should have no relationship with management, because its level of efficiency and effectiveness is measured by its independency and monitoring without any intimidation and suppression Byrd and Hickman (1992).

Agyei-Mensah, (2018) and Appiah et al, (2017c) observed negative relation with financial performance of listed banks in Ghana. Their studies report that bank need to redefine the role of independent directors on their board to ensure maximum benefit Anderson et al (2004) in a study on board characteristics, accounting reporting quality and the cost of debt using a sample of 500 firms resulted that board independence and cost of debt had a negative relationship. Ahmed-Sheikh and Wang, (2012) under their study on governance and capital structure concluded that, there was a significant positive relation between the independent nature of the board and debt financing. Abor (2007), studied corporate governance and capital structure on the Ghana Stock Market, found a positive relationship between governance and financing decision. Bokpin and Arko (2009) also confirmed a positive relation between corporate governance and capital structure using SMEs in Ghana.

2.4.3 Board Gender Diversity

Board Gender Diversity measures the proportion of women on the board. Board diversity has become important subject in corporate governance because of the essential role women play in every society. To search for that which made board effective after many business scandals, even though these organizations had good resource directors on their respective board, he discovered that strong and formidable boards are no longer about independence, rather the number of women on that board (Adam, 2016). To make it more interesting, Hermalin and Weisbach, (2014) suggested that independence does not yield results when non-executive directors were still part of the "old boys association". therefore, if an organization seek result, women do not form part of the "old boys association".

Berger et al., (2014), studied executive board composition and banks risk taking in Germany, using a sample of 249 banks, concluded that women on the board negatively related to debt structure. Sunden and Surettee (1998), also confirmed that women had risk perception that led to risk avoidance, using a sample of 30 firms listed in Tunisia. Croson and Gneezy (2009), in a study on gender difference in risk taking, used 15 sets of experiments and found that women invested less, and this appeared to be more financially risk averse than men. Peni and Vahamaa (2010) studied on female executive and earning management using 391 firms and also concluded that there was an adverse relation between gender and firm value, stability and performance. This outcome was due to the nature of women linking it to risk taking.

Other studies have proven that gender variety introduces new phenomena in board room, because of their conventional nature. Byrd and Hickman (1992), studied the impact of gender, and also found out that women were more risk loving than men. Adams and Funk (2012), in a study on “beyond the glass ceiling”, thus gender matter found that women were more risk loving than male directors. Solimene et al, (2017) maintained that the “diversity on the firm’s board produces positive effects due to different knowledge, skills, experiences, ideas and behaviors. Similarly, Pletzer et al, (2015) argued that higher number of females on corporate boards can generate positive benefits for the organization in terms of new desirable leadership skills that are introduced into the board ship as well as strategic advantages for the organization. Moreover, the presence of females on the board can enhance the performance of the committee to ensure higher transparency and improved disclosure since female are generally considered to be more ethical than their male counterparts.

2.4.4 Ownership

Ownership of a firm considers the structural distribution of equity or resources that contribute to the business in the form of shares (rights). Bopkin and Arko (2009), defined ownership as management equity, shareholders’ equity and other debts. These structures are very important to the contribution on corporate governance and financing decisions. They explained that providing a watchdog on management made them more responsive to the needs of the investors. It is believed that, the ownership structure that a company has determines the quality of financial report they prepare, and whether or not they will rely on debt financing.

Foreign Ownership constitutes the control of business whose headquarters or owners reside outside the country. This happens where the outsiders controlling owners inject long-term investments into the form of direct investments or acquisitions. Foreign ownership is a dummy which is 1, if the firm has more than 50 percent of its shares by foreigners, and 0 if not. Recent academic works have categorized ownership into different groupings, based on similar characteristics (Jensen and Meckling,1976). La Porta et al. (1999) distinguish between institutional, family, managerial and foreign ownership, which was further used in the study of Kalmi (2003). Different studies have shown different results.

Brailsford et al., (2012) in a study on ownership and capital structure concluded that equity ownership among corporate managers and external shareholder's results provided support for a positive relationship. Ahmed-Sheikh and Wang (2012), studied on corporate governance and capital structure using firms in Pakistan and found that foreign ownership was significant to capital structure. Abor and Biekpe (2007), studied corporate governance, ownership and capital structure, and concluded that foreign ownership had positive effects on capital structure. Bokpin and Arko (2009), also concluded that managerial shareholding was significant, and positively influenced the choice of long-term debt over equity.

A negative result however, has been recorded under Friend and Lang (1988) on their study on corporate governance and capital structure. They concluded that debt ratio negatively related to management shareholding. Pfeffer and Salancick (1978), studied the effects of ownership and performance on executive tenure in U.S corporation, using 84 firms to find a negative relation between ownership and firm performance on the size of the board and performance. Ali-Shah et al (2009) studied the impact of ownership structure and corporate governance on capital structure of Pakistani listed companies, using a sample size of 58 firms under fixed effect approach, and ended that local ownership had a negative relationship to capital structure.

2.5 CONCEPTUAL FRAMEWORK

The figure below conceptualizes the impact of corporate governance and financing decision in Ghana. Corporate governance variables control the internal and external mechanisms in the management of firms, to ensure accountability, monitoring, directing and controlling of resources, as well as compliances to business rules and regulations in the banking industry.

To conceptualize (H1), the study predicts a significant positive relation between board size and capital structure. In (H2), the study again predicts a positive relationship between board independence and capital structure, (H3) postulates a negative relationship between board gender diversity and capital structure, and finally (H4) predicts a significant positive relationship between ownership and capital structure. It must be noted that the board, management and owners of the firm stand to monitor performance and make financing decisions for these companies. In addition, governance mechanisms vary significantly with their influence on financing decisions. In this study, the dependent variable is capital structure, which is substituted as debt ratio, whereas the independent variables are the corporate governance attributes such as board size, board gender diversity, board independent and ownership of the firm. Again, the study controls firm characteristics to ensure more robust findings. The diagram below illustrates the conceptual framework of the study.

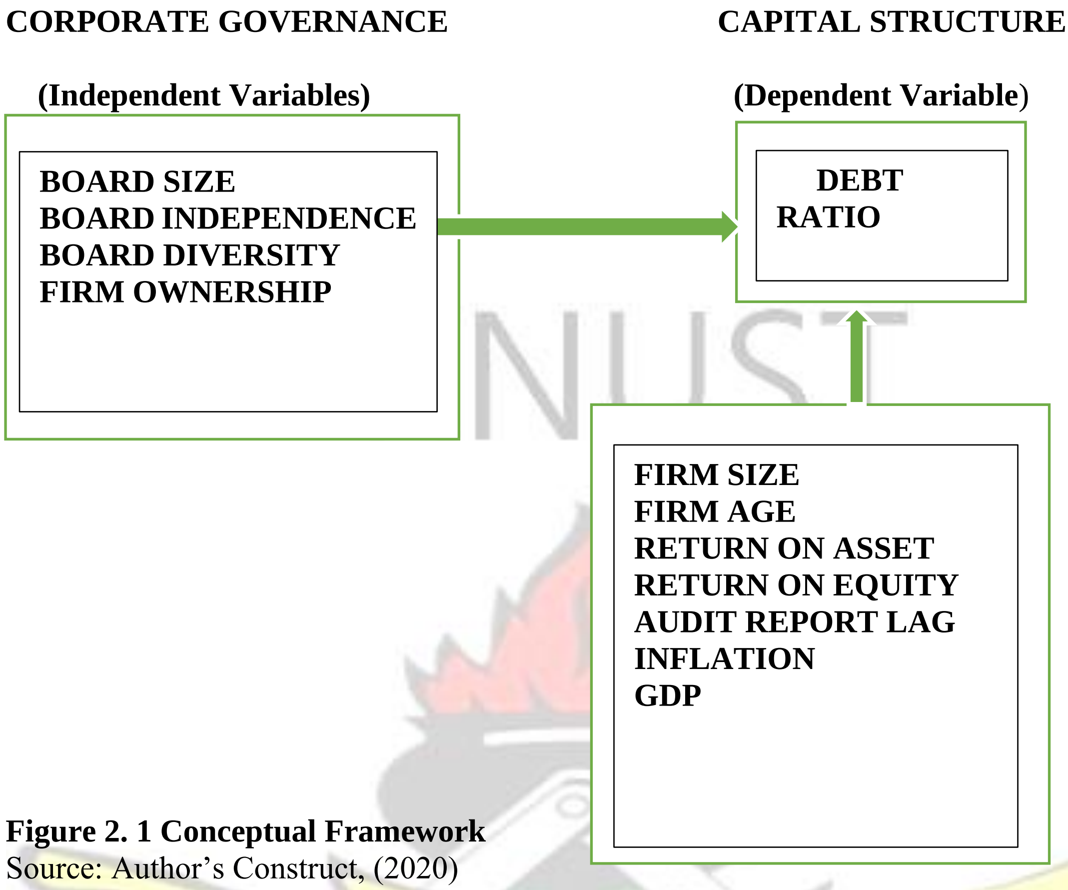

Figure 2. 1 Conceptual Framework
Source: Author's Construct, (2020)

Fig. 2.1 also seeks to understand the nature of the relationship existing between the dependent variable and the independent variable as well as the control variables.

2.6 CHAPTER SUMMARY

Relevant literature on corporate governance and capital structure have been discussed in this chapter. The literature used has been divided into theoretical and empirical literature respectively. Some of the theories reviewed in the study include, the agency, stewardship, stakeholder, resource dependency, trade off, signal and pecking order theories. From the empirical literature, different results have been documented, indicating that there exists a relationship between corporate governance and capital structure.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

An analytical framework of the study by which the research questions will be answered is presented in this chapter. Issues in this chapter include the methods used to conduct the research, the sampling method and technique, the data collection process and how the data collected is analyzed. It focuses on the model for the study and how various variables used in the research were measured.

3.1 RESEARCH DESIGN

Wooldridge, (2013) define research design as the arrangement and application of the research roadmap to obtained rational evidence. This study precisely describes the effect of corporate governance and financing decision among banks in Ghana. The study is organized within the framework of descriptive research design. Saunders et al., (2011) observed that three main research design exist. These are descriptive, explanatory and exploratory. Giving by the author, any of the approaches can be used depending on the nature of the research objectives. Exploratory approach seeks to provide profound learning of objects or events while descriptive study on the other hand give much understanding and description learning around a phenomenon or object (Wooldridge, 2013). The principal thought of this approach is that it empowers the researcher to gather much information as could reasonably be expected in the area of study. The descriptive research design was chosen because the researcher wants to obtained information pertaining to the effect of corporate governance and capital structure of banks in Ghana (Saunders et al., 2011).

3.2 POPULATION OF THE STUDY

Population is the number of inhabitants in a given place. It could also be referred to as a collection of people or items with unique behavior in which data is being examined. The study focuses on the impact of corporate governance and financing decision of banks. Hence 22 license banks in Ghana as at the year ended 2017 constitute the population sample of the study.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUE

The study used 21 commercial banks in Ghana from 2008 to 2017. Banks that form the bases of this study are those in operation by the close of 2017 financial year. The study also considered banks that were established before or within 2007 financial year in order to have ten (10 year) full observation. In selecting the banks in Ghana, the researcher used a purposive sampling technique for the study. Wooldridge (2013) indicated that, this form of sampling allows the researcher to manually select samples according to the characteristics of the research and desire drive of the study.

Sampling is a step by step procedure for selecting research participants (Creswell, 2013). Saunders et al., (2009) identified two main sampling techniques, thus probability and non-probability sampling. Probability sampling allows each element in the population equal chance of being selected, is usually equal for each case in the population. For probability sampling, the researchers are able to pre-specify a particular number of potential samples that has the likelihood of being chosen from the population and select each sample. So according to Malhotra and Birks (2006), the sampling frame selected 'by chance' in the population has a probability of being chosen. Probability sampling is mostly associated with case study and experimental research objectives where the statistical estimation of the characteristics of the population is required (Saunders et al., 2009). Probability sampling can comprise; simple random sampling, stratified sampling, systematic and cluster sampling.

With Non-probability sampling, the chance of each case being selected from the population is not known (Saunders et al., 2009). These comprised of convenience sampling, judgmental sampling, quota sampling and snowball sampling. Based on the subjective judgment of the researcher, the sample is selected to participate in the research. The study adopts non-probability sampling technique because it provides ranges of alternative technique to select samples base on subjective judgment compare to probability sampling method which provide equal chances for each participant to be selected among this population. Purposive sampling was used for the study. According to Saunder et al (2009), Purposive sampling helps to accelerate the data collection process and information accessible for a study. The choice of purposive sampling method is motivated by the fact that it helps the study to focus on only banks in Ghana.

3.4 DATA COLLECTION

The concept of conducting research takes its definition from the intellectual application of investigating an issue, through discovery, interpretation, development of methods and system knowledge advancement, with the goal of securing sound understanding of the issues at stake, while accepting critical and systematic efforts of acquiring new knowledge. In answering our main research question, Secondary data was used for the study, to answer the main research question: data for measuring the dependent and independent variables were obtained from the financial statements and the annual reports of banks from their websites. Financial statement presents data to help measure the capital structure; debt financing, while the annual report also helps to access the corporate governance variables such as board size, board independency, board diversity for the period of ten years between 2008 -2017.

3.5 DATA ANALYSIS

This study sample 21 banks out of 22 current existing banks in Ghana at the closed of December 2008 -2017 (10 years) financial reporting period. The sampling technique employed was purposive and availability of data from individual banks website. The decision to use the 21 banks was informed by the econometric theory of panel data analysis, which supports unbalanced panel for superior results (Baltagi, 2005).

Ratios analysis was the primary means used to measure variables relating to board attributes and capital structure determinants as well as banks characteristics. Stata software was used to process the data because of its unique features and comprehensive data analysis presentation. Stata as software is capable of concisely analyses time series, cross-section and longitudinal data. It was chosen because it streamlines statistical and econometric modeling and produces quality graphs and tables.

A panel data set follows a known sample individuals or elements across certain period and therefore delivers multiply observations of each individual sample. One of the main benefits of panel data is that it supports the investigator to keep the unobserved heterogeneity under control. Quite apart panel data has both cross sectional and time series dimensions. It helps the researcher with suitable data points to reduce the possibility of bias in the parameter estimators. The model used by Abor (2007) and Appiah et al (2017) has been adopted and adapted. Generally, this model is specified as:

$$CS_{it} = \beta + X_{it}\,ǘ + έ_{it}$$

Where CS_{it} capital structure of firm i at time t

β the intercept

ǘ the coefficient

X_{it} the independent variable of firm i at time t

ǘ the error term

Specifically, the relationship between corporate governance and capital structure has been modelled below, estimated using generalized least square (GLS) regression technique.

$$DR_{it} = \beta_0 + \beta_1 BODSIZE_{i,t} + \beta_2 BODIND_{i,t} + \beta_3 BODDIV_{i,t} + \beta_4 OWNERSHIP_{i,t} + \beta_5 ROA_{i,t} + \beta_6 ROE_{i,t} + \beta_7 GDP_{i,t} + \beta_8 INFLATION_{i,t} + \beta_9 FIRMSIZE_{i,t} + \beta_{10} LAG_{i,t} + \beta_{11} FIRMAGE_{i,t} + έ$$

3.5.1 Variable Measurement

It is characterized that the corporate governance influences capital structure. Therefore, the study seeks to find the set objective using variables of Corporate governance and Capital Structure. Other variables that were used in the study include profitability measures. It is believed that investors are rational and they will invest in a firm that will increase their returns. Therefore, few variables apart from Corporate governance were added to the model of the study. Lastly the size and age of firm is very important because it have impact on the model. Size and age serve as a control variable.

3.5.2 Dependent Variable

Debt Ratio using as a proxy for capital structure measuring the proportion of debt financing in the capital structure of the firm.

3.5.3 Independent Variables

Board Size estimates the number of members on the board. Abor (2007), believes that board size is calculated using the log that numbers of directors on the board. Literature shows that both positive and negative results between Corporate governance and Capital Structure. Kyereboah-Coleman, (2008), posit that large board take longer time during decision making.

Board Independence uses the ratio of non-executive directors who are on the board. Abor (2007), points that board reflects as fair and independent when majority of directors do not relate to the organization. The involvement of outside directors is a mean of protecting the organization against self-interest dealings that may poses severe threat to the entity and it available resources

Board Diversity considers the proportion of women on the board. Since financial crisis, gender diversity has been developed as one of the key board formation variables of research. Women on board are comprehensive variants of board diversity. Previous studies have shown that the risks and conservative nature of women makes then choose internal funding rather than debt.

Foreign Ownership represents the control of business in a country by individuals who are not citizens, or by companies whose headquarters are outside that country. This happens where the outsider controlling owners injects long-term investments into the form of direct investments or acquisitions. Foreign ownership is a dummy which is 1 if the firm has more than 50 percent of it share by foreigner and 0 if otherwise.

3.5.4 Control Variables

Control variables remain constant throughout the course of the examination. These variables can affect the study results where they are not constant. These control variables themselves are not of primary interest to the experiment. As part of the variable controlled is firm size, audit report lag, firm age, Inflation GDP, ROE and ROA. Abor (2007) indicated that firm size used log of total asset, ROA measures as earnings before interest and tax over total assets, while ROE measures as earnings before interest and tax over total equity. Lastly, audit report lag measures the sum of days from the closing of year to the day audit report was signed.

Table 3.1 Definition of Variables and expectation signs

Variables	Code	Measurement	Sign
Debt Financing	DF	total debt / (total equity + total debt) for firm I in time t	+
Board Independence	BI	number of outside directors / number of directors for firm I over time t	-
Board Size	BS	log of number of board members for firm I in time t	+
Board Diversity	BD	number of women on the board / total number on the board for firm	-
Firm Ownership	OWN	foreign ownership 1 otherwise 0 for firm I in time t	+
Return on Asset	ROA	earnings before interest and tax / over total asset for firm I in time t	-
Return on Equity	ROE	earnings before interest and tax / over total equity for firm I in time t	+
Firm Size	SIZE	log of total asset for firm I in time t	+
Audit Report Lag	LAG	number of days from the year end to the day audit report was sign	+
GDP	GDP	Natural logarithm of GDP per capita	+
Inflation	INFL	Natural logarithm of inflation	+
Firm Age	AGE	Number of years firm has been incorporated	+

3.6 RELIABILITY AND VALIDATION TEST

3.6.1 Test for Multicollinearity

Multicollinearity emerges when there is a probability that there is a linear link between two or more independent variables. According to White (1980), multicollinearity determines the presence or absence of double collinearity. Prefer multicollinearity appears if correlation between independent variable is equal to +1 or -1. Practically, we hardly face multicollinearity. The presence of multicollinearity is not a problem. To find out whether the presence or absence of multicollinearity among variables, it is indicated by correlation matrix, auxiliary regress. The study uses variable inflation factor (VIF) to find the presence or absence.

3.6.2 Test for Heteroscedasticity

This test is a determiner for heteroscedasticity consistent standard error proposed by White (1980). For estimation analysis to be effective and accurate, the variance of the error must be homoscedastic. Heteroscedasticity may not necessarily be the cause. Instead, the problem could be a specification error, inappropriate function forms, inappropriate data transformation, oversight and omission of important variables from the study. Heteroscedasticity is always known when computing cross sectional data, but sometimes found within panel data. It assumes that there is a chance that you cannot trust the statistical result, because heteroscedasticity increases the variance of the coefficient estimate, but the OLS procedure does not detect this increase. Thus, we conducted the test using White (1980) test.

3.6.3 Test for Normality

In statistics, normality test is used to prove whether data set is well modelled by a normal distribution, and to compute how likely it is for a random variable underlying the data set to be normally distributed. Normal distribution is characterized by a bell-shaped curve, which is expressed by two things: the mean and the variance. Tests that are conducted on the normality are also referred as parametric tests. If data that would run are not normal and do not rely on the normality, they are called non-parametric tests. It is important to test normality to ensure validity of data in the model. The application of this test is, if significant below 0.05 means, the data has a significant difference with the normal raw data, meaning data is not normal or testing is done by plotting the histogram which is expected to a bell shaped if data is normal. The test was conducted using Skewness-Kurtosis.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF RESULTS

4.0 INTRODUCTION

This section grants the empirical results of the study. It begins with the descriptive summary of the key variables used in the study showing the number of firm's years, the mean and the mini and maxi values. It then follows up with the empirical results from all the regression analyses in the study. This section summarizes empirical finding of the study.

4.1 SUMMARY STATISTICS

Analysis of Table 4.1 shows the summary statistics for the mean, median, standard deviation, Mini and Maxi values for the variables as well as the normality test of variable for 208 years of observations. On debt financing ratio accounts a mean of 79 with a minimum value of 50 and a maximum value of 95 exhibiting that banks in Ghana on average are likely to finance their asset with about 79 percent using debt ratio.

Board size measures the number of directors on the board. It has a minimum of 6 and maximum 12. The results indicate that commercial banks are likely to have an average board size of 10. On board Independence, the result indicates that firms on average are likely to have 0.64 of independence on the board with a minimum of 0.4 and a maximum of 0.9. Board gender diversity which represents the number of women compare to the total number on the results indicate that firms on average have 0.22 of women on the board with a minimum of 0.1 and a maximum of 0.5. Firm Ownership have an average of 0.36 with a minimum of 0 and a maximum of 1 whereas firm age indicate that firms are likely to have years of reputation with a minimum of 14 and maximum of 124. The results further show mean values of 4.81, 17.7, 66.2, 6.88, 6.9 and 12.1 with minimum (maximum) of -3.7(31.1), -22.7(133.6), 41(97), 3.1(9.4), 2.2 (14.1) and 6.7(17.46) for ROA, ROE, Audit Report Lag, Firm Size GDP and Inflation.

Table 4.1 Summary Statistics

Variable	Mean	SD	Min	Max	Pr (Skewness)	Pr (Kurtosis)
Debt Financing Ratio	78.9	12.5	50	95	0.000	0.577
Board Size	9.80	1.36	6	12	0.180	0.006
Board Independence	0.64	0.11	0.4	0.9	0.091	0.367
Board Diversity	0.22	0.09	0.1	0.5	0.034	0.005
Firm Ownership	0.35	0.47	0	1	0.001	0.000
Return on Asset	4.81	5.20	-3.7	31.1	0.000	0.000
Return on Equity	17.7	21.5	-27.4	133.6	0.000	0.000
Audit Report Lag	66.2	13.03	41	97	0.041	0.000
Firm Size	6.88	0.80	3.1	9.4	0.000	0.000
GDP	6.29	3.48	2.2	14.1	0.000	0.000
Inflation	12.52	3.99	6.7	17.46	0.041	0.000
Firm Age	40.76	30.57	14	124	0.000	0.000

The normality test using Skewness-Kurtosis in table 4.1 largely displace that distribution is normal.

Table 4.2 show the correlation matrices employed in the study to test the presence of multicollinearity amongst the predictive variables. The result however, suggest no collinearity in the data. The result shows a positive and negative association between variables. Although the table records high correlation of 0.3804, it is below the level of tolerance of 0.8 for collinearity tests using correlation. The minimum and maximum of the correlation records values of -0.5904 to 0.3804.

Table 4.2 Results of correlation matrix

Variables	1	2	3	4	5	6	7	8	9	10
Debt Finance	1.0000									
Board size	-0.2989*	1.0000								
Board independence	0.4546*	-0.1123	1.0000							
Board diversity	-0.1315	0.1585*	-0.1820*	1.0000						
Audit committee	0.5279*	-0.2625*	0.3514*	0.0379	1.0000					
Board committees	-0.5016*	0.3570*	-0.4940*	0.2093*	-0.3791*	1.0000				
Return on equity	0.3848*	-0.1511*	-0.0152	-0.2408*	0.3131*	0.0102	1.0000			
Return on Aseet	-0.5904*	0.1571*	-0.3897*	0.0079	-0.1751*	0.4319*	0.2955*	1.0000		
Audit report lag	-0.1822*	-0.0035	0.1364	0.0264	-0.0804	0.0634	-0.2738*	0.0216	1.0000	
Board size	0.1725*	0.2773*	-0.0609	0.0478	-0.0285	0.1552*	0.0093	-0.1043	-0.1228	1.0000
Ownership	0.3795*	-0.1673*	-0.0902	0.1367	0.2242	-0.3260*	0.0238	-0.2986*	-0.3.53*	-0.0602

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

4.2 RESULT OF FIXED EFFECT REGRESSION ANALYSIS

The fixed effect analysis is used to examine the relationship between corporate governance and capital structure. The finding from the regression model show that the independent variables explain the debt ratio willpower of the firms at 42 per cent. The F – statistics confirms the validity of the fixed effect model. F (20, 148) = 23.85 with P value of 0.0000. Also, the Hausman test supports the fixed effect model with a chi2 (10) = 512.12 with P value of 0.0000.

The study seeks to evaluate the relationship between corporate governance attributes on capital structure and the results are also shows significant in board size, board diversity, firm ownership, return on equity and return on asset.

4.2.1 The relationship between board size and capital structure (H1)

Board size is significant at one per cent significant level but has negatively relationship to debt ratio. From the analysis, it was evident that board size recorded -1.150*** (0.3249). The board has the overall responsibility of controlling and directing resource of the firm and its operations. Board Size estimates the number of members on the board. The results indicate that large board adopt low debt policy. Abor (2007), believes that board size is calculated using the numbers of directors on the board. Literature shows that both positive and negative results between Corporate governance and Capital Structure. Kyereboah-Coleman, (2008), posit that large board take longer time during decision making. The size of the board is significant at one per cent significant level but has negatively relationship to debt ratio. This indicate that board with greater number of people adopt low debt policy.

Large board in promoting firm value put a lot of pressure on management to take decision that will improve the firm. When profit of firm increases, firm use internal funds or retained earnings to finance their project rather than debt. Berger et al (2014), attributed negatively relationship between the size of the board and capital structure as in order to increase performance, borrowing affects firms profit because of the payment of loan and the accumulated interest. The negative sign represents that large board size support the pecking order theory. This position appears to be consistent with Magadelena (2012) and Mousavi et al (2012) whose finding confirm that large do not use debt but rather finance project from internal funds until looking for other less debt. The study contradicts Bokpin and Arko (2009) and Pfeffer and Salancick (1978).

4.2.2 The relationship between board diversity and capital structure (H2)

Board diversity is also significant at one per cent significant level and has negative relationship to debt ratio. From the analysis board diversity recorded -12.71*** (2.990). Due to the conservative nature of women coupling with high cost on interest, women trends to prefer retained earnings or internal funds to support firms project than using debt. Board Diversity considers the proportion of women on the board. Since financial crisis, gender diversity has been developed as one of the key board formation variables of research. Women on board are comprehensive variants of board diversity. Previous studies have shown that the risks and conservative nature of women makes then choose internal funding rather than debt. This support the pecking order theory. Sunden and surettee (1998), study found that women invest less and have perception that leads to risk avoidance which appear to be more financially risk averse than men. The negative position appears to be consistent with Berger et al (2014), Peni and Vahamaa (2010). This can also mean that, because of the nature of women linking to risk taking, they will not accept high risk project which will bring more yield therefore discourage investors to push more funds (debt) in the firm. The negative sign also contradicts the finding of Adams and Funk (2012).

4.2.3 The relationship between board independence and capital structure (H3)

Board Independence is insignificant and negatively relates to debt ratio. Hence it recorded -0.982 (3.892). The negative sign suggesting that non-executive directors who represent shareholders does not encourage debt financing because they will lose their existing voting power on the board. Board Independence uses the ratio of non-executive directors who are on the board. Abor (2007), points that board reflects as fair and independent when majority of directors do not relate to the organization. The involvement of outside directors is a mean of protecting the organization against self-interest dealings that may poses severe threat to the entity and it available resources. Board independence is negative and not significantly related to debt financing.

The independent directors who has the responsibility to put proper policies in monitoring resource and funds that comes into the firm. Banks accept deposits from customer which form part of their liability, while total assets of these banks are the combination of liability (debt) and equity. Large independent directors with experience and qualified personnel make sure that funds are channel to projects and investments that have been properly scrutinize and recommend to undertake.

The negative sign represents that independent directors support the pecking order theory. This position appears to be consistent with Magadelena (2012) and Mousavi et al (2012) whose finding confirm that independent directors who have the resource capacity and experience low debt gearing but rather finance project from internal funds until looking for other less debt. This contradicts the tradeoff theory which state that no matter what directors will still borrow for different reasons such as using it as tax shield.

4.2.4 The relationship between Firm Ownership and Capital Structure (H4)

Ownership plays integral part in conducting business in today's world. It is significant and positive at 10 per cent significant level. The results revealed that firm ownership recorded 4.666* (1.854). This indicate that foreign ownership adopts debt financing policies. Foreign Ownership represents the control of business in a country by individuals who are not citizens, or by companies whose headquarters are outside that country. This happens where the outsider controlling owners injects long-term investments into the form of direct investments or acquisitions. Foreign ownership is a dummy which is 1 if the firm has more than 50 percent of it share by foreigner and 0 if otherwise.

It is significant and positive at 10 per cent significant level. This indicate that foreign ownership adopts debt financing policies and have the ability to attract investors. They understand the value and relevance of good governance and are able to supervise and monitor activities in the organization. Banking deals with the transfers of funds from the surplus unit to deficit unit, therefore foreigner firms should be given the chance to participate in the banking business in Ghana. Competition between local and foreign industries should be well related to avoid using foreign banks to overshadow local banks since their capital out weight the local banks. Image of owners are linked to the business creating an impression to outsider how powerful they are and this also attract debt. The positive sign is line with Alshbilli et al (2012) and inconsistent with Friend and Lang (1998).

Table 4.3 Results of the Fixed Effect Regression

Dependent Variable	**Debt Financing Ratio**
Independent Variables	
Board Size	**-1.150*** (0.3249)**
Board Independence	**-0.982 (3.892)**
Board Diversity	**-12.71*** (2.990)**
Firm Ownership	**4.666* (1.854)**
Return on Asset	**- 0.1800* (0.896)**
Return on Equity	**0.0680** (0.0235)**
Audit Report Lag	**0.006 (0.0214)**
Firm size	**0.680* (0.364)**
GDP	**-0.0995 (0.089)**
Inflation	**-0.0414 (0.080)**
Age	**3.478* (1.895)**
Constant	**83.71*** (5.871)**
F – statistics (prob > F)	23.85 (0.000)
R-squared	0.4174
Adjusted R-squared	0.3662
rho	0.933

Standard errors in parentheses; *** p<0.01,** p<0.05,* p<0.1

4.3 FIRM CHARACTERISTICS

Return on Asset which represents profitability on assets of the firm is significant at ten per cent significant level and negatively relate to debt ratio. The negative relationship shows that when firm record high and consistent profit, earning or internal funds increase which allow such firm to finance it projects using their internal earnings. Firm with good earning avoid gearing. This is also in line the pecking order theory. The position appears to be consistent with Abor (2007) and contradict with Petersen and Rajan (1994).

Return on Equity which also represent profitability on shareholders' fund. This is significant and positive at one per cent significant level to debt ratio. This contradict the return on asset where by as earning grows, gearing also goes up. The positive position explains that firm uses debt for different purpose and some are to seek for tax shield and trade off. To mitigate shareholders and management conflict, shareholder creates a system that will make management act and think like them through tiding some of the compensation to performance and converting them into shares (ownership rights) and as it increases debt financing increases and it alleviate conflict. This is consistent with agency cost and trade off theory.

Firm Size which measures as the log of total assets is significant and has a positive relationship to debt ratio. The positive outcome explains that as firm grows bigger and continue to operate in business it creates itself as on-going concern and hence increase its ability to take on more debt. Large firms have diversified portfolios and these diversification help reduce risk which attract more debt. The positive sign is in line with Hovakimian et al (2004).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

This segment concludes the study on the impact of corporate governance and financing decision of commercial banks in Ghana. It starts with summary of the research, followed by the conclusions made from the relationship established and ends with the recommendations. Earlier studies have not measured the effect of ownership (foreign) on the financing decisions of banks in Ghana. Using a sample of 21banks for the periods 2008 to 2017, this study examines the relationship between corporate governance and financial decisions of banks in Ghana. The objective of the study was to find the impact of firm ownership on the choice of leverage by banks as well as examining the nature of corporate board attributes and financing decision pattern of banks in Ghana.

5.1 SUMMARY OF THE FINDING

To achieve the general objective of the study, a descriptive research approach was adopted. The study population consists of selected banks in Ghana. Using a sample of 21 commercial bank for the period 2008 to 2017. The data was analyzed using a descriptive statistic, Correlation Matrix and Ordinally Lease Square (OLS) approach including linear regression test models. The objective of the study was to find the impact of ownership on the choice of leverage by banks as well as examining the nature of corporate board attributes and financing pattern of the banks. The main discoveries of the study and recommendations are presented below. The relevance of corporate governance cannot be underestimate since it releases new scope that enhances organizational competitiveness. The study examining the relation between corporate governance and capital structure. The finding shows a significant and positive relationship between firm ownership and return on equity. These indicate that banks in Ghana purse debt using these as a mechanism while board size, board diversity and return on asset also record significant but negative. Though they are negative, it affirms the pecking order theory that state that firms should first finance its project with internal funds before sourcing for alternative. The study has unveiled stimulating finding on subject area which call for additional investigation to appreciate the study on CG and capital structure in Ghana. Areas such as shareholder’s activism, board activity intensity and block holdings.

The finding suggests that board diversity significant and negatively related to capital structure which support the pecking order theory that states that firm should rather use internal funds before they seek for alternative funds. Banking industry whose main product line is money cannot rely on their funds to give out loans. Therefore, it needs to ensure alternative ways to raise funds. The tradeoff theory supports the banking industry operations and therefore no need to promote high level of women participation on board because of their level of risk intake.

The size of board has been seen as having a negative relationship to debt ratio. Small board do not support debt policy. Banking industries in Ghana are recommended to set large board. It has been associated that large board accept debt financing policy and use these to enhance firm value. Ghana Institute of Banker and other institution should establish a quota system for banks to help them attract more funds.

Firm size records significant and positive relationship to debt ratio. The size of banks increases firm accountability level because the public assign high level of reputation looking at the number of branches and among others. This give investor the confidence to conduct business with such banks. Banking Regulatory should ensure firms have qualified and competent personnel to handle huge operation of these large organizations. Recent collapse of banks in Ghana have contributed to the fear of depositors conducting business with new and small banks. Below are the main discoveries of the study and recommendations are presented below.

5.1.1 The relationship between board size and capital structure (H1)

Board Size estimates the number of members on the board. Abor (2007), believes that board size is calculated using the numbers of directors on the board. Literature shows that both positive and negative results between Corporate governance and Capital Structure. Kyereboah-Coleman (2008), posit that large board take longer time during decision making. The size of the board is significant at one per cent significant level but has negatively relationship to debt ratio. This indicate that board with greater number of people adopt low debt policy.

Large board in promoting firm value put a lot of pressure on management to take decision that will improve the firm. When profit of firm increases, firm use internal funds or retained earnings to finance their project rather than debt. Berger and Humphrey (1997), attributed negatively relationship between the size of the board and capital structure as in order to increase performance, borrowing affects firms profit because of the payment of loan and the accumulated interest. The negative sign represents that large board size support the pecking order theory. This position appears to be consistent with Magadelena (2012) and Mousavi et al (2012) whose finding confirm that large do not use debt but rather finance project from internal funds until looking for other less debt. The study contradicts Bokpin and Arko (2009) and Pfeffer and Salancick (1978).

5.1.2 The relationship between board diversity and capital structure (H2)

The second research objective to is examine whether board gender diversity on corporate governance have significant negative influence on the capital structure of commercial banks. Board Diversity considers the proportion of women on the board. Since financial crisis, gender diversity has been developed as one of the key board formation variables of research. Women on board are comprehensive variants of board diversity. Previous studies have shown that the risks and conservative nature of women makes then choose internal funding rather than debt.

Board diversity is also significant at one per cent significant level and has negative relationship to debt ratio. Due to the conservative nature of women coupling with high cost on interest, women trends to prefer retained earnings or internal funds to support firms project than using debt. This also support the pecking order theory. Sunden and Surettee (1998), study found that women invest less and have perception that leads to risk avoidance which appear to be more financially risk averse than men. The negative position appears to be consistent with Berger et al (2014), Peni and Vahamaa (2010). This can also mean that, because of the nature of women linking to risk taking, they will not accept high risk project which will bring more yield therefore discourage investors to push more funds (debt) in the firm. the negative sign also contradicts the finding of Adams and Funk (2012).

5.1.3 The relationship between board independence and capital structure (H3)

Board Independence uses the ratio of non-executive directors who are on the board. Abor (2007), points that board reflects as fair and independent when majority of directors do not relate to the organization. The involvement of outside directors is a mean of protecting the organization against self-interest dealings that may poses severe threat to the entity and it available resources. Board independence is negative and not significantly related to debt financing.

The independent directors who has the responsibility to put proper policies in monitoring resource and funds that comes into the firm. Banks accept deposits from customer which form part of their liability, while total assets of these banks are the combination of liability (debt) and equity. Large independent directors with experience and qualified personnel make sure that funds are channel to projects and investments that have been properly scrutinize and recommend to undertake.

The negative sign represents that independent director's support the pecking order theory. This position appears to be consistent with Magadelena (2012) and Mousavi et al (2012) whose finding confirm that independent directors who have the resource capacity and experience low debt gearing but rather finance project from internal funds until looking for other less debt. This contradicts the tradeoff theory which state that no matter what directors will still borrow for different reasons such as using it as tax shield.

5.1.4 The relationship between Firm Ownership and Capital Structure (H4)

The last objective is to find the impact of ownership on capital structure. Ownership plays integral part in conducting business in today's world. Foreign Ownership represents the control of business in a country by individuals who are not citizens, or by companies whose headquarters are outside that country. This happens where the outsider controlling owners injects long-term investments into the form of direct investments or acquisitions. Foreign ownership is a dummy which is 1 if the firm has more than 50 percent of it share by foreigner and 0 if otherwise.

It is significant and positive at 10 per cent significant level. This indicate that foreign ownership adopts debt financing policies and have the ability to attract investors. They understand the value and relevance of good governance and are able to supervise and monitor activities in the organization. Banking deals with the transfers of funds from the surplus unit to deficit unit, therefore foreigner firms should be given the chance to participate in the banking business in Ghana. Competition between local and foreign industries should be well related to avoid using foreign banks to overshadow local banks since their capital out weight the local banks. Image of owners are linked to the business creating an impression to outsider how powerful they are and this also attract debt. The positive sign is line with Ahmed et al (2012) and inconsistent with Friend and Lang (1998).

5.2 CONCLUSION

Corporate failures have been a common phenomenon in Ghana in recent times due to poor governance practice. Studies shows that for the past decade governance have risen and increase rapidly (Appiah, 2011). Notable among these are the Royal Bank, Capital Bank, U.T Bank, Construction Bank and among others. These developments have shaken the financial system in Ghana leaving many investors in shocks. Even though many factors could be responsible for what happen to these banking institutions in

Ghana. Many suggest that, these problems are packages of irresponsibility on the part of the corporate board of directors as seem not to have discharge their oversight roles in protecting the interest of the owners.

Moreover, other corporate governance variable recorded negative and significant in relationship to capital structure. This support underlies theories such as the Perking Order and Trade Off theories. Board diversity recorded significant and negative relationship to capital structure and was due to the conservative nature of women associated with risk and high interest rates. Board size also recorded negative and significant to capital structure of commercial banks in Ghana.

5.3 RECOMMENDATIONS

5.3.1 Recommendation to the Banks

Banks in Ghana should ensure strict compliance to corporate governance guidelines which has been issued by BoG. These new guidelines reform gear toward addressing current development in the banking industries and should be made mandatory for all financial institutions.

The study found out that financial institution board of director with skill and resource capacity increase the supervisory role of the firm, therefore banks should ensure to increase the number of directors on the board for proper monitoring to improve firm performance.

Secondly, the results show that board independence improves monitoring of funds and financial decision of the firm, fostering management to abide by standard practice of management. This implies that when the board is independent, it ensures management to make prudent decision when it comes to sourcing funds for the firm, it allows the committee to be objectively evaluate and address all financial issues. Therefore, management and owners of banks as well as the central bank should ensure that directors on the board of every bank should be independent.

Thirdly, the result show that banks in Ghana heavily rely on external funds, which indicate that debt financing ratio at a maximum of 95 percent. This make it difficult for any bank to stand panic withdrawal when such incident happens. With the new introduction of the minimum capital, the central bank should make it a point to increase it every four years. This will make owners of bank inject more capital or retain more of the company profit in the firm to increase productivity.

Lastly due to high dependency of external funds, the board of banks in Ghana should ensure there is a strict laydown policy on loan management and sound liquidity practice that provide periodic review of the bank deposit structure. The policies should include volume and trend of total deposits, interest rates and maturity distribution of time deposit and among others.

5.3.2 Recommendation to Regulators

The central Bank should ensure strict compliance of all banks to the new directive issues by the bank of Ghana. Board of directors for various banks overlooks their role because there was no proper monitoring of the central bank to supervise their activities. Bank of Ghana should ensure that supervisory team have the relevant skills and qualification in monitoring and accessing banks to adhere to the banking principles and practice.

The central bank should ensure that proper sanctions and punishment are given to culprit who abuse the banking laws and regulations such as quota to NPL and among others, constant training should be organized by the central bank to it staffs, banks internal control staffs, banks managers and the board on how to enhance the various roles as time moves on due to changes in technology.

Ghana security laws and regulations require publicly listed companies to publish it financial statement within 42 days after year end. The finding shows that none of the listed banks are able to comply or meet the requirement. The study shows both listed and unlisted bank use at most 92 days to publish their financial information, if the regulator and the companies find that 42 days are too short, they can amend the legislation to increase the reporting period so that majority ca meet this important requirement.

Banking regulators should ensure that personnel who hold management position in various banks should have the necessary qualification and relevant skills in managing such offices to abstain from abuse of power.

The study results confirm that foreign banks have the ability to attract investors because they understand the value and relevance of good governance, they are able to supervise and monitor activities in the organization. The central bank should set policy to guide competitions between the foreign and local banks. As we protect local banks, foreign banks should also be encouraged to come in to enhance banking prospect. This in the long run will create employment and channel funds into the economy

Finally, it must be recommended that policy makers should be proactive in their quest to make effective banking and corporate governance policy that is gear toward addressing current issues that are very prevalent to good governance. As new corporate governance and guidelines initiated, the regulars should make it a point to allow all banking institution to compline.

5.3.3 Recommendation for Future Research

Future research should consider a comparative study on financing decision of local and international banks in Ghana using the Generalized Least Square Approach to determine the impact of corporate governance and financing decision of banks in Ghana.

Corporate governance measurement for previous studies in Ghana have always been the governance attributes, new researcher is recommended to use corporate governance index to determine impact of corporate governance and financing decision of banks in Ghana.

Lastly researchers can look at financing decision of other industries such as Mining. Manufacturing, Petroleum and Gas financing decision to have a comparative understanding of financial decision of firms in Ghana.

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APPENDIX

Names of Banks	Year of Incorporation	Majority Ownership
Access Bank	2008	Foreign
Agricultural Development Bank	1965	Local
Bank of Africa	1997	Foreign
Barclays Bank	1917	Foreign
Bank of Baroda	2007	Foreign
CAL Bank	1990	Local
Ecobank Ghana	1990	Foreign
FBN Bank	2006	Foreign
Fidelity Bank	1996	Local
First Atlantic Bank	1994	Foreign
GCB Bank	1953	Local
Guarantee Trust Bank	2004	Foreign
HFC Bank	1990	Foreign
National Investment Bank	1963	Local
Prudential Bank	1993	Local
Sahel Sahara Bank	2008	Foreign
Societe Generale Ghana	1957	Foreign
Stanbic Bank	1999	Foreign
Standard Chartered Bank	1896	Foreign
United Bank for Africa	2004	Foreign
Zenith Bank	2005	Foreign