

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI,
GHANA**

DEPARTMENT OF ACCOUNTING AND FINANCE

**CORPORATE GOVERNANCE AND THE ASSET QUALITY OF LISTED BANKS IN
GHANA**

By

RICHARD KWAME AMETORXE

A Thesis submitted to the Department of Accounting and Finance, College of Humanities and
Social Sciences, in Partial Fulfilment of the Requirements for the degree of

MASTER OF SCIENCE (ACCOUNTING AND FINANCE)

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DECLARATION

I hereby declare that this submission is my own work towards the award of Master of Science in Accounting and Finance (MSc. Accounting and Finance) and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree or diploma at Kwame Nkrumah University of Science and Technology, Kumasi or any other educational institution, except where due acknowledgment is made in the thesis.

Richard Kwame Ametorxe
(PG 9364621)

.....
Signature Date

Certified By:
Dr. Kwame Mireku
(Name of Supervisor)

.....
Signature Date

Certified By:
Prof. K. O. Appiah
(Head of Department)

.....
Signature Date

DEDICATION

This work is dedicated to my lovely wife Hannah Konadu and my children Shemaiah Ametorxe and Hannock Ametorxe.

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ACKNOWLEDGEMENT

I would like to express my gratitude to my wife and children for their support and prayers throughout my programme.

Also, I express my gratitude to my lovely parents Mad. Celestina Agbativor and the Late Moses Ahiave.

My profound appreciation also goes to my supervisor, Dr. Kwame Mireku for his guidance and support.

Lastly, I express my gratitude to all my course mates who made impact on my life during the period of our study.

The logo of KNUST (Kwame Nkrumah University of Science and Technology) is centered in the background. It features a yellow eagle with its wings spread, perched on a green shield. Above the eagle is a black mortar and pestle with a red flame. The entire emblem is set against a light grey background.

ABSTRACT

The study investigates the relationship between corporate governance and asset quality of listed banks in Ghana. It employs the quantitative approach and the explanatory research method, coupled with the desk strategy to pursue the objectives of the study. Secondary panel data spanning the period from 2013 to 2022 are used. The study employs the panel regression analysis to estimate the relationship between the variables. The stata software is employed to aid the analysis. The study reveals that the size of the governing board, board diversity, and board financial expertise

have no significant relationship with asset quality. Additionally, the study discovers that there is a significant positive relationship between board independence and asset quality of the banks. The study recommends that there is the need to strengthen and improve the independence of the board since it is critical in enhancing the asset quality of banks. The study concludes that the result of the findings of the study challenges the validity of agency theory in the banking sector of Ghana and call for alternative explanations to understand the performance implication of corporate governance on the banking sector of Ghana.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	x
LIST OF FIGURES	xi

CHAPTER ONE.....	1
INTRODUCTION	1
1.1 BACKGROUND OF THE STUDY.....	1
1.2 PROBLEM STATEMENT	3
1.3 OBJECTIVES.....	3
1.4 RESEARCH QUESTIONS	4
1.5 SIGNIFICANCE OF THE STUDY	4
1.7 SCOPE AND LIMITATIONS OF THE STUDY	5
1.8 ORGANIZATION OF THE STUDY	6
CHAPTER TWO.....	6
LITERATURE REVIEW.....	6
2.0 INTRODUCTION	7
2.1 CONCEPTUAL REVIEW	7
2.1.1 Corporate Governance	7
2.1.2 Corporate Governance Models	9
2.1.2.1 The Simple Finance Model.....	9
2.1.2.2 The stewardship Model.....	10
2.1.2.3 The Stakeholder Model.....	10
2.1.2.4 The Political Model	10
2.1.3 The Board of Directors	11
2.1.3.1 Board Size.....	12
2.1.3.2 Board Independence	12
2.1.3.3 Board Diversity.....	13

2.1.3.4 Financial Expertise	14
2.1.4 Importance of Good Corporate Governance.....	14
2.1.5 The Concept of Asset Quality.....	15
2.1.6 Measurement of Asset Quality.....	16
2.2 THEORETICAL REVIEW	17
2.2.1 Agency Theory.....	17
2.2.2 Stewardship Theory	18
2.2.3 Stakeholder Theory.....	19
2.3 EMPIRICAL REVIEW	20
2.3.1 Effect of Board Size on Asset Quality	20
2.3.2 Effect of Board Independence on Asset Quality.....	23
2.3.3 Effect of Board Diversity on Asset Quality	26
2.3.4 Effect of Board Financial Expertise on Asset Quality	27
2.4 CONCEPTUAL FRAMEWORK	28
CHAPTER THREE	29
RESEARCH METHODOLOGY	29
3.0 INTRODUCTION	29
3.1 RESEARCH DESIGN.....	30
3.2 POPULATION OF THE STUDY	30
3.3 SAMPLING TECHNIQUE AND SAMPLE SIZE	31
3.4 DATA AND DATA SOURCES.....	31
3.5 DATA ANALYSIS	31
3.5.1 Analysis.....	31

3.5.2 Model Specification	32
3.5.3 Variables and their Measurement	32
CHAPTER FOUR	33
ANALYSIS AND DISCUSSIONS.....	33
4.0 INTRODUCTION	33
4.1 DESCRIPTIVE STATISTICS	34
4.2 DIAGNOSTIC TESTS	35
4.2.1 Correlation analysis	35
4.2.2 Variance Inflation Factor.....	36
4.2.3 Hausman Specification Test.....	37
4.3 RESULTS OF REGRESSION ESTIMATION.....	37
4.3.1 Effect of Board Size on Asset Quality	38
4.3.2 Effect of Board Independence on Asset Quality	39
4.3.3 Effect of Board Diversity on Asset Quality	39
4.3.4 Effect of Board Financial Expertise on Asset Quality	40
4.4 DISCUSSION OF RESULTS.....	40
4.4.1 Effect of Board Size on Asset Quality	40
4.4.2 Effect of Board Independence on Asset Quality	42
4.4.3 Effect of Board Diversity on Asset Quality	43
4.4.4 Effect of Board Financial Expertise on Asset Quality	44
CHAPTER FIVE	45
SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS.....	45
5.0 INTRODUCTION	45

5.1 SUMMARY OF FINDINGS	45
5.2 CONCLUSION	46
5.3 RECOMMENDATIONS FOR POLICY	47
5.4 SUGGESTIONS FOR FURTHER STUDIES.....	48
REFERENCES	49

LIST OF TABLES

Table 3.1: Variables description and measurement	33
Table 4.1: Descriptive Statistics	35
Table 4.2: Matrix of correlations	36
Table 4.3: Variance inflation factor (VIF)	37
Table 4.4: Hausman specification test	38
Table 4.5: Regression results with asset quality (AQ) as the dependent variable	39

LIST OF FIGURES

Figure 2.1: Conceptual framework	29
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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Businesses throughout the world are constantly working to enhance its operational mode, structure, process, and architecture in order to expand their operations and maintain a competitive edge. This can only be accomplished through sound corporate governance, which is especially important in the banking sector, which uses financial intermediation to move money from economically prosperous to economically disadvantaged areas ((Egungwu and Egunwu, 2018). Since recurrent business failure around the world has undermined investors' confidence, the connection between corporate governance and company performance has attracted a great deal of attention from both academics and practitioners.

According to Demaki (2011), poor corporate governance was to blame for both the 2001 ENRON scandal and the 2007 financial meltdown that followed the collapse of the subprime mortgage industry. Poor corporate governance in the banking system, as noted by Alfaki (2007), contributed to the East Asian financial crisis, which in turn had devastating economic and social effects. Notably, financial distress was released on many businesses and the economy as a whole in Ghana as the global financial crisis, which began in the United States, spread to other areas of the world including Africa (Fiador and Sarpong-Kumankoma, 2020).

Gupta and Sharma (2022) observe that the ineffective implementation of corporate governance has a negative impact on asset quality. This is because managers continue to offer loans without

adhering to the laid down rules and practices that have been established. Also, among the many variables that are responsible for ongoing problems and poor performance in the banking industry, asset quality continues to be the defining issue (Abdulatif and colleagues 2014; Tahir and colleagues 2020). Hence, good governance in the banking sector is very critical for the success and sustainability of banks since it helps to curtail deterioration in the quality of loans or assets of banks.

In Ghana, a number of bank failures have been attributed to weakness in corporate governance practices with the most recent one being the banking failures during the banking sector clean up in 2017. Indeed this has led to the central bank issuing guidelines on corporate governance practices. The issuance of the governance guidelines is to strengthen governance practices in the banks in order to strengthen credit management and other practices that put the bank at risk of deteriorated asset quality so as to strengthen depositors confidence in the banking system.

Since the bank failures that prompted the issuance of the corporate governance guidelines by the central bank of Ghana, several researchers have examined the subject of corporate governance on a number of variables in the banking industry. Predominantly, the existing studies concentrated on various measures of performance. However, asset quality being a vital aspect of bank operational activities has not been given the desired attention in the literature in the Ghanaian context. In order to enhance the quality of assets of banks and maintain healthy agency relationship, the structure and composition of the board is indispensable (Ping-Fu, 2014). It is on the strength of this background that this study examines the impact corporate governance on the asset quality of banks in Ghana, paying specific attention to banks that are listed on the Ghana Stock exchange.

1.2 PROBLEM STATEMENT

The quality of banks' asset or loans is crucial for the sustainability of banks. However, over the last few years, several banks across the globe have failed because of weakened asset quality, which have been blamed on laxity in corporate governance (Mingaleva et al., 2014; Tahir et al., 2020). In Ghana, several banks have failed over the last few years as a result of high levels of nonperforming assets or loans. This has led to people questioning the vibrancy and effectiveness of the corporate governance structures of banks, especially the composition and functioning of the board of directors since the board is the pivot around which all other governance activities revolve. Yet, there are limited studies in Ghana that examine the link between corporate governance and the asset quality of banks in Ghana. As far as the author is aware, the only studies in Ghana that look at corporate governance and asset quality are Tetteh (2019) and Fiador and SarpongKumankoma (2020). However, these studies did not incorporate board financial expertise and gender diversity, although they addressed relevant research gaps. This leaves a gap in research since these aspects of corporate governance remain unexplored in literature pertaining to the Ghanaian context. Hence, this study seeks to fill this gap by going beyond the existing studies to incorporate these factors together with other factors to examine the link between corporate governance and assets quality of listed banks in Ghana.

1.3 OBJECTIVES

The main aim of the study is to examine the effect of corporate governance on the asset quality of listed banks in Ghana. To achieve this main objective, the study pursues the following specific objectives.

1. To examine the effect of board size on asset quality of listed banks in Ghana.

2. To examine the effect of board independence on asset quality of listed banks in Ghana.
3. To investigate the effect of board financial expertise on asset quality of listed banks in Ghana.
4. To investigate the effect of board gender diversity on asset quality of listed banks in Ghana.

1.4 RESEARCH QUESTIONS

1. What is the effect of board size on asset quality of listed banks in Ghana?
2. What is the effect of board independence on asset quality of listed banks in Ghana?
3. What is the effect of board financial expertise on asset quality of listed banks in Ghana?
4. What is the effect of board gender diversity on asset quality of listed banks in Ghana?

1.5 SIGNIFICANCE OF THE STUDY

The study has implications for contributing to the available literature on the corporate governance and asset quality of banks. It will undoubtedly serve a repository for reference in future by researchers and scholars.

Again, the study has implication for policy since it will provide insight into the link between corporate governance and asset quality of banks. It is worthy of note that an understanding of how corporate governance mechanisms influence asset quality will help managers of banks to put in place proper and effective governance measures.

In addition, an understanding of the link between corporate governance and asset quality will help regulators to strengthen their policies and guidelines on governance in order to safeguard the interest of investors, depositors, and shareholders.

1.6 BRIEF METHODOLOGY

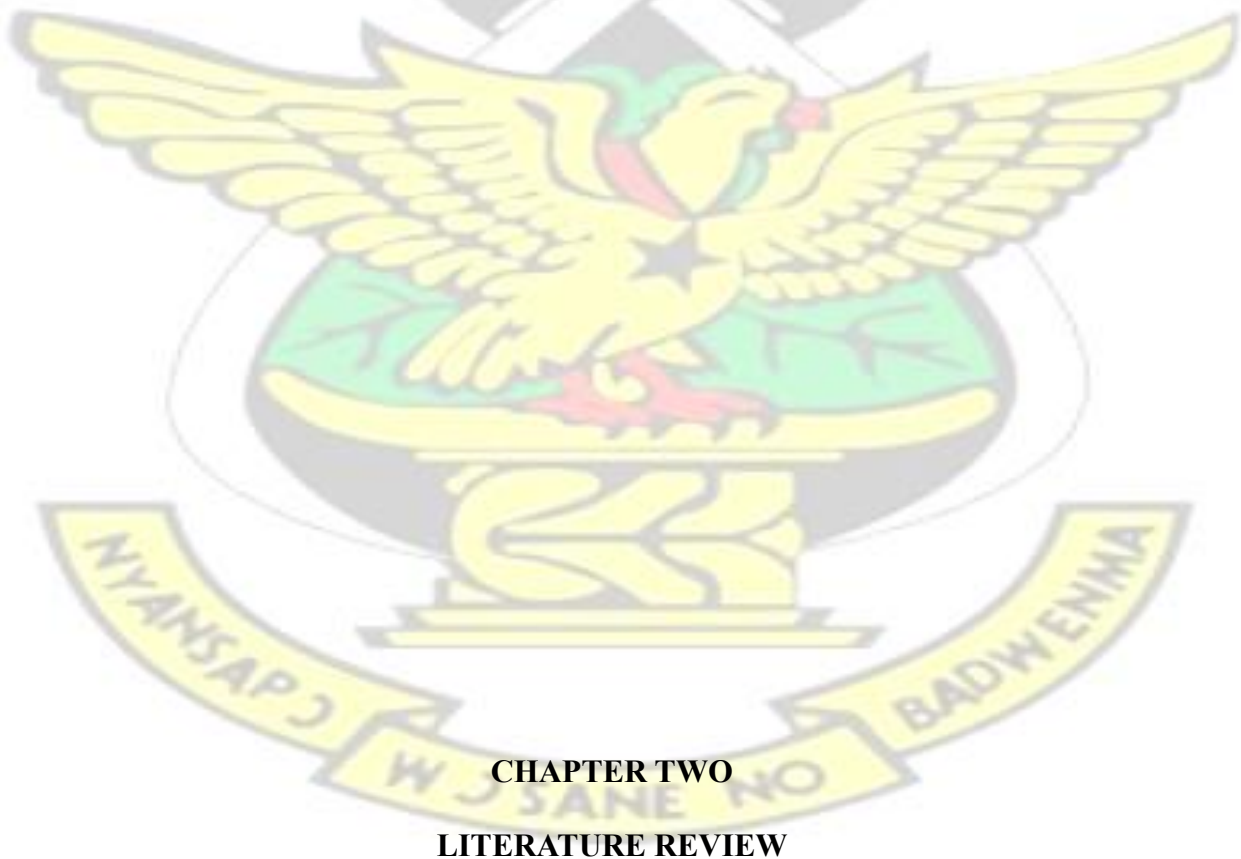
The study adopts the quantitative approach and the panel study design. The choice of the quantitative approach is due to the nature of the study objectives which quantitative data and techniques are the most suitable to address them. The study also adopts the explanatory research method since it seeks to explain the relationship between corporate governance and asset quality of banks. The population comprise banks that are listed on the Ghana Stock Exchange. The purposive sampling is adopted to select banks with the relevant data for the respective years under consideration. Secondary data spanning the period from 2013 to 2022 are used. Data are analyzed using the descriptive and inferential analysis (i.e. panel regression analysis). The Stata software is employed for the analysis.

1.7 SCOPE AND LIMITATIONS OF THE STUDY

Contextually, the study is confined to discussions on corporate governance and asset quality of banks. Mainly, the corporate governance measures are limited to board indicators such as the size of the board, independence of the board, financial expertise of the board, and the gender diversity of the board. Concerning the geographical scope, the study is limited to the banks in Ghana that are listed on the Ghana Stock Exchange.

1.8 ORGANIZATION OF THE STUDY

A total of five chapters make up the research paper. The opening section of the paper serves as an overview of the whole investigation. Background, problem description, objectives, research questions, significance, brief methodology, scope, and organisation are all covered in detail. The literature review for this project is presented in Chapter 2. Conceptual review, theoretical review, empirical review, and the conceptual framework make up the details in this chapter. The research methodology, including the study's design, population, sample and sampling process, data and data analysis, model specification, and the description and measurement of variables are discussed in Chapter 3. Analysis and discussions are presented in Chapter 4. The findings, conclusion, and suggestions for policy adoption and future research are all summed up in chapter five.



2.0 INTRODUCTION

This chapter presents the literature review of the study. It comprises of four main sections. Section 2.1 focuses on the conceptual review where the main themes of the study are explained. Section 2.2 looks at the theoretical review where some theories underpinning of the study are discussed. Section 2.3 presents the empirical review of the study. It concludes by providing the conceptual framework for the study in section 2.4.

2.1 CONCEPTUAL REVIEW

2.1.1 Corporate Governance

Corporate governance is a system that is used to manage the problems arising from the separation of ownership and control. According to Tricker (2015), it is simply the way the way in which power is executed over corporate entities. One school of thought observe that CG encompass a set of top level guideline laid down in organizations to ensure that resources are utilized in the most efficient and effective manner by the people entrusted with the resources, such that the interest of stakeholders are protected (Balagobei, 2019, Castellini and Agyemang, 2013). In similar position, Chibarinya (2014) observe that CG simply refers to the embodiment of internal policies and processes that seeks to enforce managers of entities to conduct their activities in a way that prioritizes the interest of the owners and various other stakeholders.

It is important to note that other definitions have been provided in a host of other literatures. For instance, in the view of Raut (2014), CG simply refers to the system of ensuring proper allocation of an entity's resources such that corporate value is maximized to the benefit of all stakeholders. This is achieved by ensuring the existence of transparency in all business dealings. One school of

thought note that CG also “includes the relationships among internal and external stakeholders involved and the goals for which the corporation is governed” (The Institute of Chartered Accountants in England and Wales, 2020). From the foregoing, corporate governance can be defined as the conscious and deliberate set of policies put in place by a firm's top hierarchy in order to ensure the firm's resources are utilized in a rational manner that benefit a stakeholders.

Corporate governance is the mechanism that is employed by organizations to achieve their goals. Corporate governance is therefore the complete set of rules, regulations, and policies that are instituted to direct the administration and management of organizations to benefit all stakeholders.

Corporate governance is one of the indispensable elements of present day corporate management. This is because an effective implementation of CG in entities offer a lot of advantages to firms. One of these advantages is that CG ensures that information about the firm become accessible to all stakeholders, including external stakeholders, thus, eliminating or reducing information asymmetry largely (Agyemang, Aboagye, and Ahali, 2013). It is also important to note that CG helps to protect the investment of shareholders such that they are not short-change by agents who they have set as custodian or stewards of their firms.

Historically, CG has emerged as result of business failures. It is worthy of note that CG traces its history to the account of various ambitious top level officers of firms who plunged their firms into bankruptcy (Jovanović and Grujić, 2016). Per the account of Cheffins (2012), CG traces its history to the stories of the East India Company, Hudson's Bay Company, Levant Company, and other high profile firms in the 16th and 17th centuries. Indeed, it is historically provided in literature that CG has existed for several years. Yet, its entry into prominence started in the 1970s in the USA

following the SEC initiative to establish reforms to promote good governance in firms. This became necessary following the rapid expansion of businesses in the USA after the second world war because managers were mainly the decision makers when it comes to decision-making on businesses at that time and shareholders were only to comply. Thus, CG systems were deemed necessary at the time to reduce agency cost.

It must be emphasized that just as any other system of structure of activities; CG thrives on a set of structures to ensure that it achieves what it sets out to do. Even though there are number of structures that come together for the effective and efficient flow of CG activities, the board remains the central element around which all other activities thrive. Thus, without the board, all other CG activities cannot be effectively implemented or achieved. Hence, the board serves as a pivot in the whole CG architecture or framework.

2.1.2 Corporate Governance Models

Different models have been developed to describe corporate governance because there is no one fit definition. Hawley and Williams (1996) propose four distinct types of corporate governance. These are briefly discussed below.

2.1.2.1 The Simple Finance Model

From a financial perspective, the key issue in corporate governance is how to design rules and incentives that effectively link the actions of managers (agents) with the goals of principles (owners). The agency hypothesis, which holds that managers can use their discretion to divert shareholder wealth to their own ends, interacts with the perspective of finance to suggest that, in practice, firms rarely maximise their worth. Managers should, ideally, sign a contract that spells

out their duties and the kinds of financial choices they should be expected to make. However, since it is difficult to foresee future situations, fully effective contracts are rarely used. (Shleifer and Vishny, 1996).

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2.1.2.2 The stewardship Model

To maximize profits for stockholders, managers in the stewardship model are driven by a sense of duty and accomplishment. According to this notion, managers are the most capable custodians of a company, and they will perform better and increase the company's worth if they are given more autonomy and discretion in their daily tasks.

2.1.2.3 The Stakeholder Model

The stakeholders model suggests that in order to maximize the firm's value, all interested parties, such as top employees, customers, suppliers, and others, should be given a voice in corporate governance and offered incentives similar to ownership, while also having their interests aligned with those of shareholders. It is advised that the board of directors include representatives from major customers, suppliers' financial advisors, and employees in order to stimulate long-term employee ownership and board participation.

2.1.2.4 The Political Model

According to the political model, different groups of shareholders, owners, and managers can exert pressure on how resources are divided. Institutional investors through institutions such as the shareholders committee and the director nominating committee can influence the management of

a company. By pooling money and voting power, active shareholders can exercise informal and continuing oversight over management. Unions with sizeable pension funds are another stakeholder that can utilize their voting power to influence corporate governance improvements in its favour.

2.1.3 The Board of Directors

The board of directors is an integral part of the corporate governance structure, as was just discussed. It is the centre around which all the other players in corporate governance organise. It is the responsibility of the board of directors to maximise shareholder value (Shleifer and Vishny, 1997; Hermalin and Weishback, 2001) by overseeing the hiring, firing, monitoring, and compensation of the company's management. The board is an efficient vehicle for corporate governance in theory, but this is not borne out by the data. The fact that the board frequently consists of insiders whose monitoring is to be done by the board, that the appointment of outsiders on the board is decided or influenced by inside managers, and that the chairwoman of the board is also the CEO of the organisation are all factors that contribute to this discontent. However, having a competent board of directors is widely recognised as an efficient corporate governance mechanism. Given the critical role of the board of directors, it is always important to pay great deal of attention to the composition and structure of the board. From existing literature, the structure and composition of the board is mostly given as the size of the board, the independence of the board, the diversity of the board, financial expertise of the board, among others. These structural and compositional mechanisms are discussed below.

2.1.3.1 Board Size

The size of the board relates to the entirety of the representation on the board. In other words, it means the total number of people who make up the board. Companies with larger boards are thought to perform better as a whole because their members bring unique skills and perspectives to the table. Jensen (1993) and Lipton and Lorsch (1992) counter this by arguing that large boards are less difficult to regulate and less effective for CEOs. Larger boards are notoriously difficult to coordinate, leading to a plethora of common difficulties.

Shareholder groups typically prefer smaller boards because to the coordination expenses and free rider difficulties associated with larger boards (Gertner and Kaplan, 1996). Yet other research, such that of Gales and Kesner (1994) and Dalton et al. (1999), suggests that larger boards are preferable because they enable the incorporation of a greater variety of perspectives and skillsets into the board's efforts. It appears from these research that the resource dependency theory's claim that board size positively correlates with firm performance is correct, with firm performance being a major determinant of an organization's long-term viability (Dalton et al., 1999).

2.1.3.2 Board Independence

Generally, when people are found in an independent position, they are able to provide objective decision and opinions on issues. Therefore, the independence of the board of directors is key to measuring or assessing how effective the board can be. Thus, in effect, an independent board is vital to the success of every organization because, all things being equal, an independent board will seek to the promotion of shareholders interest as well as the interest of all other stakeholders.

According to Karkowska and Acedański (2019), the independence of the board refers to the extent or level of participation of independent members on the board.

Carver (2007) note that an independent board members refers to a member who is non-executive and does not take part in the active day-to-day management of the business. Thus, it is important that the composition of the board is always made in such a way there will be more members who are not executives of the firm. From literature, the independence of the board is mostly measured by the percentage of independent members on the board. That is the total number of non-executive members against the total number of people serving on the board. Carver (2007) note that an independent board play a major role to effective CG in firms.

2.1.3.3 Board Diversity

The word diversity simply refers to the variety of a given phenomenon. This means that board diversity refers to the collective set of varied demographics (i.e. age, gender, etc), skills, competencies, experience, among others, that the board possess. In simple terms, board diversity is a set of unique features that make a set of board members different from the other (Francoeur and Lakhal, 2015). It is worthy of note that some of the unique features are observable whereas others are not observable (Egon Zehnder, 2017).

Largely, the observable traits are the one mostly used in literature, hence this study focuses on the observable traits, and specifically focus on gender. Most studies point to the fact that a gender diverse board is effective since female directors tend to assist in reducing the risk level of firms due to the risk-averse nature of most females (Kang et al., 2007; Labelle, Francoeur, and Lakhal, 2015; Egon Zehnder, 2017). Therefore, the diversity of the board is assessed by the extent of female

participation on the board. That is the proportion or percentage of women who serve on the board as against their male counterparts.

2.1.3.4 Financial Expertise

The board of directors are responsible for directing the affairs of the firm on behalf of the owners. In doing this, the board takes business decision that are financial in nature. Hence, the financial expertise of the board is vital for effective decision making that seek to protect the interest of all stakeholders. In practice, board with financial expertise is able to review financial information provided by management and make informed decisions for the stakeholders of a firm. According to Gafoor et al. (2018), the financial expertise of the board is measured by the percentage of members with financial background and experience.

2.1.4 Importance of Good Corporate Governance

According to Mishra and Kapil (2016), corporations and government agencies employ corporate governance to safeguard the financial interests of their constituents. As a result, we can conclude the following about the value of excellent corporate governance.

First, corporate governance establishes a level playing field within the corporation so that no single interest may dictate policy. This means that corporations define job functions, duties, and goals through corporate governance. This ensures segregation of duties, which in turn facilitates the transfer of power from the executives to the shareholders via the board of directors.

Once again, improved internal controls are another outcome of good company governance. Internal control guidance and reporting lines that prevent managers from circumventing controls are established when the board's audit committee is given authority to do so. Thus, in effect, CG helps to strengthen internal controls which helps to foster good practices in firms.

Again, good corporate governance contributes to a culture of openness and responsibility inside an organisation. Clearly, in a transparent organization, improprieties would be exposed rapidly, allowing the company to address the problem before it causes significant disruption. Thus, effective CG helps enhance transparency and openness for good performance.

2.1.5 The Concept of Asset Quality

For effective financial intermediation, a stable banking system is necessary. In contrast to industrial enterprises, banks make money by selling credit and collecting interest on loans made to customers. Banks' loan and advance portfolios are substantial. As a result, its proper management is crucial to any bank's success (Mabvure, Gwangwava, Faitira, Mutibvu, and Kamoyo, 2012).

Banks are constantly at danger of default from borrowers so long as they deal in credit/loans (Mabvure et al., 2012). When the "product" (Loan) a bank sells doesn't generate profits, it creates it becomes a non-performing asset which affects the quality of the loans portfolio. This in other words becomes a credit risk to the bank. Credit risk is among the most significant factors affecting the bank's financial performance. Nonperforming loans are expected to be high, further lowering the bank's asset quality (Drehman, Soresen, and Stringa, 2008).

Asset quality is refers to the degree of the quality of the loan portfolio of a bank. This means that asset quality looks at the extent to which the loan assets of the firm are not overdue to become a non-performing asset or non-performing loan (Mabvure et al. 2012; Sekar and Balachandran, 2014). Non-performing loans are defined as those in which interest and principal payments have been overdue for more than three months, or ninety (90) days. A loan meets this definition if the interest and principal payments are more than 90 days late.

Banks' ability to generate revenue may suffer if certain of their loans are deemed non-performing. In addition, "good banks can be ruined by bad loans," as Sekar and Balanchandran (2014) put it. According to Monika (2014), nonperforming assets are like a virus in the banking industry since they reduce liquidity, cut into profits, and threaten the institution's very existence.

Keeton (quoted in Addulatif et al., 2014) argues that an information gap in the credit market is the primary cause of defaulting on loans. Due to knowledge asymmetry, banks are more likely to lend to high-risk borrowers who can afford the extremely high loan prices that banks demand. The likelihood of loan default increases when high-risk borrowers engage in extremely high-risk endeavours without adequate planning.

2.1.6 Measurement of Asset Quality

According to (Ping-Fu 2014), the purpose of the numerous methods used to assess banks' asset quality is to determine the level of risk that banks, shareholders, and consumers face as a result of loan default. He concluded that non-performing loans, the loan-to-deposit ratio, and the nonperforming loan-to-asset ratio were important indicators of bank asset quality. Various Central Banks mandates banks under their supervision to keep their non-performing loan rates at various levels Eduardus et al. (2007). Asset quality is stronger at banks where the loan-to-asset ratio is lower than at those where it is higher.

2.2 THEORETICAL REVIEW

2.2.1 Agency Theory

Jenseng and Meckling (1976) first proposed the agency theory, which has since been expanded upon by numerous researchers. Relationship between shareholders and the managers they hire to run the company on their behalf is described by the theory. The principal has given the agent the authority to oversee and direct the company's operations on his or her behalf (Clarke, 2004). Two primary aspects of the idea have been singled out by Daily, Dalton, and Canella (2003). First, the number of persons involved in an organisation is drastically cut down to just two in this notion. The shareholder is the principle, while the management is the agent. Second, the theory posits that agents are, by definition, rational and self-interested (Padilla, 2000) even though they are tasked with making judgements that should benefit their principals. The rational, self-interested, and self-referential worker or agent is still the standard theoretical representation. Even with an awareness of and strategy for dealing with risk, it is possible for the principal and his agents to succumb to opportunistic behaviour, self-interest, and a lack of ambition.

Further, shareholders and management may have agency conflicts. In the face of intense competition and pressure to deliver on shareholder expectations, managers may adopt an opportunistic and/or risk-averse mindset. Managers may be pressured to take on risky ventures because shareholders anticipate ever-increasing profits but are risk-averse, making it difficult for them to meet those expectations. The idea was implemented despite its drawbacks because of changes in ownership and management (Bhimani, 2008). This necessitated the establishment of rules and mechanisms to rein in the behaviour of agents or managers in order to better match the

aims of management with those of the owners (Clarke, 2004). It implies that managers or employees will be held accountable for their activities, which is necessary for good governance and the protection of principals' interests.

This implies that through proper governance practices, directors act as middlemen in the relationship between shareholders and managers to ensure that the interest of the owners is protected and maximized. In other words, the directors help to ensure that the owners are not shortchanged by giving the management of their business to the agents. Thus, the directors acting in the best interest of the owners monitor the activities of the managers to ensure that practices that trigger deterioration in asset quality are curtailed to ensure banks remain vibrant. Thus, in effect, the agency theory helps to position the directors as agents who work to ensure that owners interest is protected in the banks, critical among them is the protection of the quality of the banks' assets to ensure the continuous operation due to improved asset quality.

2.2.2 Stewardship Theory

This theory is in opposition to the agency theory. Managers (agents) are seen through the lens of agency theory, which provides an explanation of the interactions that exist inside an organisation. The stewardship considers more than only financial matters, allowing for such non-financial goals for managerial action as the pursuit of excellence, personal fulfilment, and contentment. When selected, stewards have an obligation to act in the best interests of shareholders, as stated by Davidson and Davis (1991).

A good steward is one who, via their work, brings the most value to the company's stockholders while also protecting that value at all costs. In this view, managers have discretion over crucial

business decisions and are entrusted with achieving both organisational goals and shareholder value maximisation. Directors, according to Daily et al. (2003), are in a prime position to oversee the company's operations in order to maximise financial performance and profits, and they should also do so in order to safeguard their reputation as the leaders responsible for the organization's success. Since managers see themselves as stewards and gain personal fulfilment from an organization's success, the problem of agency or transaction costs in supervising and monitoring their actions is mitigated.

The theory therefore suggests that when directors and managers act as effective stewards who have been entrusted with responsibility by their superiors (shareholders), they tend to work better in order to fulfil the interest of all parties. In same way, when directors and managers of banks conduct themselves as effective and responsible stewards, it goes a long way to minimize activities and practices that deteriorate the asset quality of banks.

2.2.3 Stakeholder Theory

According to this theory, a company's primary responsibility is to its stakeholders. It therefore argues that all parties with a vested interest in a company—including customers, suppliers, employees, investors, and communities—are inextricably linked. Thus, it places far greater emphasis on management's interactions with its various other stakeholders, as opposed to merely shareholders.

Any collection of people whose behaviour has an effect on the success of a business is included in this notion. It takes into account not only shareholders but also clients, creditors, suppliers,

employees, rival businesses, and the general public. According to Sundaram and Inkpen's (2004), this theory is capable of satisfying the requirements of all stakeholders. If you try to please everyone, says Smallman (2004), you may end up encouraging corrupt behaviour since you won't know who to trust. Some proponents of the theory have argued that the board of directors of a firm should have a representative from each stakeholder group to ensure that the needs of all stakeholders are addressed at each meeting (Ping, Cheng, and Wing, 2011).

Thus, effectively, the stakeholder theory argues to position the directors as the center of the management and the other stakeholders of the firm to ensure that the interest of all stakeholders are protected. For instance, the directors as primary element of corporate governance works to ensure that the interest of depositors is protected by ensuring that the managers do not act in ways that jeopardize the quality of the banks' assets which has the potential to collapse the banks which will lead to depositor fund being locked up.

2.3 EMPIRICAL REVIEW

2.3.1 Effect of Board Size on Asset Quality

Gupta and Sharma (2022) pursue a study to identify the specific corporate governance determinants of asset quality in the Indian banking system. The authors employ a novel data from 2010 to 2019 using a dynamic panel data approach. The study covers 45 banks which are made up of public and private banks. The General method of moments is adopted for the study. The study establishes that board size has no significant relationship with asset quality.

Tahir et al. (2020) conduct a study on the influence of corporate governance on quality of loans in

Pakistan. The study employs relevant econometric specification such as panel fixed effect and 2SLS regression models. The study also employ data covering the period 2005 to 2015. The study reveals that there is no significant relationship between board size and loan quality of banks.

Angahar and Mejabi (2014) examine the impact of corporate governance variables on the nonperforming loans (which represent asset quality) of Nigerian Deposit Money Banks. The researchers employ secondary data on 14 quoted banks from the period 2005-2011. The multivariate regression analysis is employed for the study. The study reports that no significant relationship exist board size and loan quality of the banks.

Egungwu and Egunwu (2018) examine the effect of corporate governance dynamics on the asset quality of Nigerian banks. The employs the ex-post facto research design while data for the study are sourced from the financial statements of ten quoted banks. The data are analtzed using the OLS regression technique. The study finds that board size has significant positive influence on asset quality of Nigerian banks.

Balagobei (2019) investigate to whether there is any link between CG and asset quality of banks in Sri Lanka. Data employed covers the period from 2013 to 2017. The multiple regression analysis is adopted to analyze the data. From the study, it emerges the study that board size has no strong effect on asset quality.

Moussa (2019) conduct a study with the purpose to examine the impact of corporate governance variables on the asset quality of banks in Tunisia. Employing the explanatory research design, the

panel data regression analysis is applied to a sample of listed banks from the Tunisia banking sector during the 2000–2014 period. The study reveals that board size significantly influences the asset quality of the banks.

Gafoor et al. (2018) study the influence of board structure on asset quality of banks, using a sample of 36 scheduled commercial banks operating in India during the period from 2001 to 2014. The study employs the quantitative research approach with the panel methods. The study finds that board size has no significant impact on asset quality.

Shukla et al. (2020) research on the impact of board size on the accounting returns and asset quality. In this study, the authors the quantitative techniques on a sample of 29 listed Indian banks. The OLS regression, robust regression, and panel data methods are used. The study find that board size has an insignificant relationship with the asset quality of Indian banks.

Abdulazeez et al. (2019) examine the impact of Board structure on the asset quality of listed deposit money banks in Nigeria. The study focused on the 10 year period from 2008-2017. The data employed are quantitative data taken from the annual reports of fifteen banks. The OLS robust regression is employed to analyze the data. The study finds that board size has no significant influence on the asset quality of the banks.

Fiador and Sarpong-Kumankoma (2020) study the impact of corporate governance variables on the quality of bank loan portfolios. The study uses quantitative techniques and relied on data spanning the period 2006 to 2016 of selected banks in Ghana. The study uses a panel-corrected

standard errors estimation model. The study reveals that the size of the governing board has a significant positive influence on the quality of bank loan portfolios.

Gupta and Sharma (2023) pursue a study on the link between CG and asset quality of public and private banks in India. The study uses the quantitative approach and employs the dynamic panel data analysis of GMM. The data employed is in respect of the period from 2010 to 2019. The study reports a positive and significant relationship exist between board size and asset quality.

Osamor, Saka and Olatunji (2019) evaluate corporate governance indicators and asset quality of twelve (12) listed DMBs in Nigeria. Using ex-post facto research design, data of 2012 to 2017 and analyzed using ordinary least square, fixed effect, random effect techniques and decomposition of the selected DMBs. Findings reveal that board size has a significant positive relationship with asset quality.

Ogada (2022) study the effect of corporate governance practices on asset quality among commercial banks in Kenya. The study employs the descriptive research design and utilized data on 40 commercial banks in Kenya. It uses secondary data covering the period 2017-2021. The OLS multiple regression analysis is used to estimate the relationship. The study reports that board size has significant negative link with asset quality of banks.

2.3.2 Effect of Board Independence on Asset Quality

Gupta and Sharma (2022) pursue a study to identify the specific corporate governance determinants of asset quality in the Indian banking system. The authors employ a novel data from 2010 to 2019 using a dynamic panel data approach. The study covers 45 banks which are made up

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Balagobei (2019) investigate to whether there is any link between CG and asset quality of banks in Sri Lanka. Data employed covers the period from 2013 to 2017. The multiple regression analysis is adopted to analyse the data. From the study, it emerges the study that board independence has no strong effect on asset quality.

Moussa (2019) conduct a study with the purpose to look into how CG indicators influence the asset quality of banks in Tunisia. Employing the explanatory research design, the authors employ the panel regression technique. Data employed covers the period from 2000 to 2014. The study reveals that board independence significantly enhances the quality of a bank loan assets.

Gafoor et al. (2018) study how board structure affect the asset quality of banks. The study uses 36 banks in India. The study uses data spanning the period 2001 to 2014. In the study, it emerges that board independence has a strong influence on the asset quality of banks.

Abdulazeez et al. (2019) examine the impact of Board structure on the asset quality of listed deposit money banks in Nigeria. The study focused on the 10 year period from 2008-2017. The data employed are quantitative data taken from the annual reports of fifteen banks. The OLS robust regression is employed to analyze the data. The study finds that board independence has no significant influence on the asset quality of the banks.

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Osamor, Saka and Olatunji (2019) evaluate corporate governance indicators and asset quality of twelve (12) listed DMBs in Nigeria. Using ex-post facto research design, data of 2012 to 2017 and analyzed using ordinary least square, fixed effect, random effect techniques and decomposition of the selected DMBs. Findings reveal that board independence have a significant positive relationship with asset quality.

Osamor et al. (2019) investigate the relationship that exist between CG and asset quality of Nigerian banks. Employing the quantitative approach to research, the study uses the OLS regression to estimate the relationship. Data employed for the study are data for the period 2012 to 2017. It emerges that the board independence has a significant positive relationship with asset quality.

Gafoor et al. (2018) study how board structure affect the asset quality of banks. The study uses 36 banks in India. The study uses data spanning the period 2001 to 2014. In the study, it emerges that board independence has a strong influence on the asset quality of banks.

Ogada (2022) study the effect of corporate governance practices on asset quality among commercial banks in Kenya. The study employs the descriptive research design and utilized data on 40 commercial banks in Kenya. It uses secondary data covering the period 2017-2021. The OLS multiple regression analysis is used to estimate the relationship. The study reports that board independence has a negative and significant effect on asset quality of banks.

2.3.3 Effect of Board Diversity on Asset Quality

Moussa (2019) conduct a study with the purpose to look into how CG indicators influence the asset quality of banks in Tunisia. Employing the explanatory research design, the authors employ the panel regression technique. Data employed covers the period from 2000 to 2014. The study reveals that board diversity significantly enhances the quality of assets of banks.

Fiador and Sarpong-Kumankoma (2020) study how CG affect the asset quality of banks. The study uses quantitative techniques and relied on data spanning the period 2006 to 2016 of selected banks in Ghana. The study uses a panel-corrected standard errors estimation model. The study reveals that the proportion of females on the governing board has no significant impact on the quality of bank loan portfolios.

Gupta and Sharma (2023) pursue a study on the link between CG and asset quality of public and private banks in India. The study uses the quantitative approach and employs the dynamic panel data analysis of GMM. The data employed is in respect of the period from 2010 to 2019. The study reports a strong and positive link between gender diversity and asset quality.

Ogada (2022) study the effect of corporate governance practices on asset quality among commercial banks in Kenya. The study employs the descriptive research design and utilized data on 40 commercial banks in Kenya. It uses secondary data covering the period 2017-2021. The OLS multiple regression analysis is used to estimate the relationship. The study reports that board diversity has no statistically significant relationship with asset quality of banks.

2.3.4 Effect of Board Financial Expertise on Asset Quality

Osamor et al. (2019) investigate the relationship that exist between CG and asset quality of Nigerian banks. Employing the quantitative approach to research, the study uses the OLS regression to estimate the relationship. Data employed for the study are data for the period 2012 to 2017. It emerges that the financial expertise of the board strongly affect asset quality.

Gafoor et al. (2018) study how board structure affect the asset quality of banks. The study uses 36 banks in India. The study uses data spanning the period 2001 to 2014. In the study, it emerges that financial expertise of the board has a strong influence on the asset quality of banks.

Ogada (2022) study the effect of corporate governance practices on asset quality among commercial banks in Kenya. The study employs the descriptive research design and utilized data on 40 commercial banks in Kenya. It uses secondary data covering the period 2017-2021. The OLS multiple regression analysis is used to estimate the relationship. The study reports that financial expertise of the governing board has a significant and positive effect on the asset quality of banks.

Magembe et al. (2017) study the effect of corporate governance on Loan performance of commercial banks in Kenya. Descriptive research design is used in this study and a sample representation consisting of all listed banks in Kenya are used. The study reveals that board financial expertise exert a strong and positive influence on the asset quality of the banks.

2.4 CONCEPTUAL FRAMEWORK

The conceptual framework provides a pictorial presentation of how the variables in a study are related. Flowing from the research objectives and the review of relevant literature, the conceptual framework for the study which tries to capture how corporate governance influence asset quality is shown in Figure 2.1.

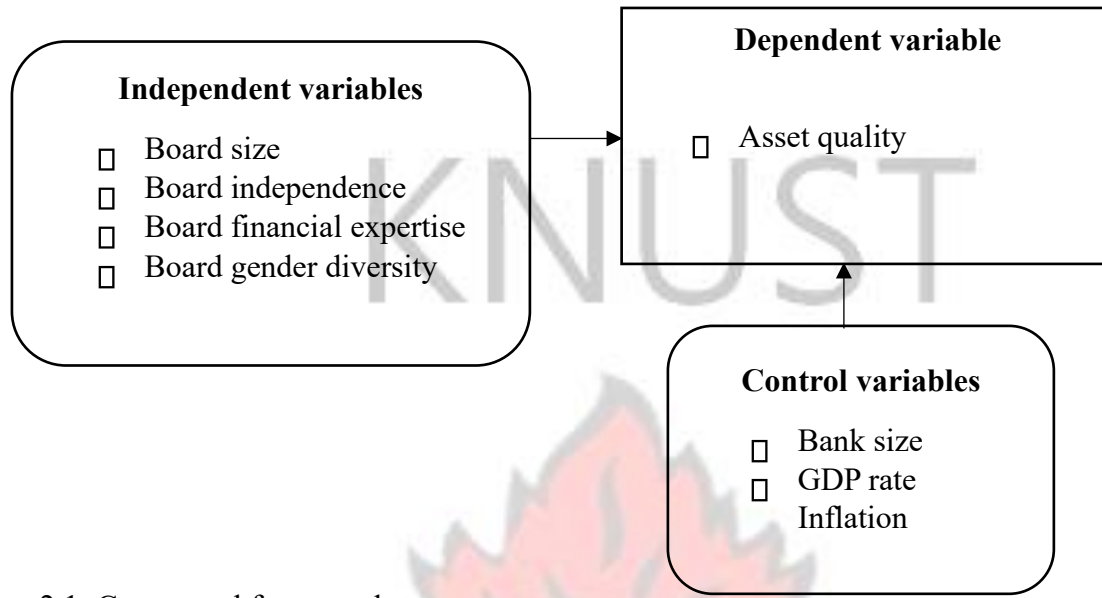


Figure 2.1: Conceptual framework

Source: Developed by author (2023)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter presents the research methodology of the study. The main issues highlighted in this chapter encompass the research design, population, and sampling technique and sample size. Other main highlights of the chapter include the data and data sources, data analysis, and operationalization of variables

3.1 RESEARCH DESIGN

The study employs the quantitative approach to research to address the objectives. The quantitative research approach is adopted in line with the approach used in existing literature on similar studies (e.g. Gupta and Sharma, 2022; Tahir et al., 2020). Additionally, the choice of the quantitative approach is due to the nature of the study objectives which quantitative data and techniques are the most suitable to address them.

The study also adopts the explanatory research method since it seeks to explain how corporate governance influence the asset quality of banks. Again the choice of explanatory method stem from the adoption of the method in similar prior studies (e.g. Gafoor et al., 2018; Gupta and Sharma, 2022; Tahir et al., 2020).

The study also adopts the desk strategy since it uses secondary data that are publicly available and does not involve the direct solicitation of data from respondents. Besides, the desk strategy is employed since it is employed in existing literature to pursue similar studies (e.g. Gafoor et al., 2018; Gupta and Sharma, 2022; Tahir et al., 2020).

3.2 POPULATION OF THE STUDY

Population is the whole set of components the study data uses to make inferences and offers a basis upon which to justify the validity and reliability of the study (Creswell and Creswell, 2018). Thus, the population is the entire set of element that are of interest and around which the study revolves and conclusion is made. The population of the study is all the listed banks in Ghana as at end of the year 2022. Per information obtained from the Ghana Stock Exchange, eight banks that are

operating in Ghana are listed on the stock exchange. Hence, the population of the study is the eight banks.

3.3 SAMPLING TECHNIQUE AND SAMPLE SIZE

The study employs the census technique to include participants in the study. Therefore, the sample size is the same as the population which is 8. The choice of using the census technique is because the population of the study is not extremely large; hence, using all the elements in the study makes the sample very representative of the population.

3.4 DATA AND DATA SOURCES

The study uses secondary data which are specifically panel data to address the research objectives. The data are yearly frequency data covering 10 years from 2013 to 2022. The ten year period is used to ensure that adequate observations are obtained for the study. Besides, this period forms the most current ten-year within which information on the banks can be obtained. The data in respect of the bank activity variables such as data on corporate governance indicators, asset quality, and bank size are obtained from the annual reports of the banks whereas data on the macroeconomic variables are obtained from the World Bank Development Indicators database.

3.5 DATA ANALYSIS

3.5.1 Analysis

Data obtained for the study are analyzed by means of descriptive and inferential analysis. Specifically, the descriptive analysis is done to gain an understanding of some basic information about the nature of the data and to identify and eliminate outliers in the data. The inferential

analytical technique employed to analyze the data is the panel regression analysis. In checking the suitability of the data, correlation analysis, variance inflation factor, and Hausman specification test are performed. The Stata statistical software is employed to help the analysis.

3.5.2 Model Specification

Flowing from prior studies (e.g. Gupta and Sharma, 2022; Tahir et al., 2020), the study specifies the regression model as follows.

$$AQ_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BD_{it} + \beta_4 FE_{it} + \beta_5 Size_{it} + \beta_6 GDP_{it} + \beta_7 INFL_{it} + u_{it} \dots\dots (1)$$

Where:

B_0 = the intercepts or slope of the regression; β_1 - β_7 = the coefficients of regression; u_{it} = the error term; AQ = asset quality; BS = board size; BI = board independence; BD = board diversity; FE = board financial expertise; Size = bank size; GDP = GDP rate; INFL = Inflation rate.

3.5.3 Variables and their Measurement

The variables in employed for the study are operationalized as found in Table 3.1 below.

Table 3.1: Variables description and measurement

Variables	Measurement of variables	Code
Dependent variables		
Asset quality	Non-performing loans ratio	AQ
Independent variables		
Board size	Number of members on the board	BS
Board independence	Percentage of non-executive members on the board.	BI
Board financial expertise	Percentage of members with financial expertise	FE
Board gender diversity	Percentage of women on the board.	BD

Control variables	Bank size	Natural log of Total assets	Size
GDP	GDP rate	GDP	GDP
Inflation	Inflation rate	INFL	INFL

CHAPTER FOUR

ANALYSIS AND DISCUSSIONS

4.0 INTRODUCTION

This chapter covers the analysis and discussions of the study. It is composed of five main sections. It starts with the descriptive statistics and correlation analysis in the first two sections. The analysis of results on effect of capital structure on performance is presented in the third section. The fourth section presents the analysis on the effect of capital structure on sustainability. The discussion of results is addressed in the fifth section.

4.1 DESCRIPTIVE STATISTICS

Table 4.1 show the results on the descriptive statistics on the response and predictor variables. Per the table, the results on asset quality (AQ) shows a mean of 0.169; std. dev is 0.110; the spread of minimum and maximum values 0.032 to 0.493. The mean AQ of 0.169 suggests that 16.9% of the total loans assets of the banks go into non-performing loans to affect the quality of the banks' assets. For board size (BS), the mean is 9.050, standard deviation is 1.582, and the spread of minimum and maximum values is 4 to 12. The mean BS shows that on average the total number of directors on the banks is 9 members.

The mean board independence (BI) is 0.704, standard deviation is 0.139, and the spread of minimum and maximum values is 0.333 to 0.909. The mean BI of 0.704 indicates that the banks averagely have 70% of total board members being independent non-executive directors. The mean board diversity (BD) is 0.205, standard deviation is 0.103, and the spread of minimum and maximum values is 0.000 to 0.455. The mean BD indicates that on average the banks' board of directors is diversified with 20.5% female directors.

The mean board financial expertise (FE) is 0.357, standard deviation is 0.124, and the spread of minimum and maximum values is 0.111 to 0.727. The mean FE indicates that on average the banks' board of directors comprise of 35.7% financial experts. It is further noted that the number of observations for all the respective variables is 80, indicating that none of the variables have missing values in the dataset used for the analysis.

Table 4.1: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
----------	------	------	-----------	-----	-----

AQ	80	0.169	0.110	0.032	0.493
BS	80	9.050	1.582	4.000	12.000
BI	80	0.704	0.139	0.333	0.909
BD	80	0.205	0.103	0.000	0.455
FE	80	0.357	0.124	0.111	0.727
Size	80	22.068	0.756	20.192	23.628
GDP	80	6.085	3.893	0.510	14.047
INFL	80	11.606	3.776	7.126	17.455

Note: AQ is asset quality; BS is board size; BI is board independence; BD is board diversity; FE is board financial expertise; size is bank size; GDP is gross domestic product; INFL is inflation.
Source: computed from research data (2023)

4.2 DIAGNOSTIC TESTS

4.2.1 Correlation analysis

In Table 4.2, results of the correlation analysis is shown. This analysis seeks to test whether the variable are okay for the regression estimation depending on degree of correlation between them. Thus, when correlation is high, it suggest a problem of multicollinearity which needs to be eliminated before proceeding to conduct the regression estimation. The results in Table 4.2 show that the highest correlation is found between GDP and Size with a value of -0.503. Per the results, it is observed that the pairs of variable are not strongly correlated, indicating the multicollinearity is limited in the variables and are fit for the regression estimation.

Table 4.2: Matrix of correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Variables								

(1) AQ	1.000							
(2) BS	-0.470	1.000						
(3) BI	0.017	0.137	1.000					
(4) BD	0.165	-0.047	0.130	1.000				
(5) FE	-0.179	-0.037	-0.087	0.047	1.000			
(6) size	-0.033	0.143	0.253	0.359	0.294	1.000		
(7) GDP	-0.307	0.135	-0.329	-0.108	-0.144	-0.503	1.000	
(8) INFL	0.352	-0.152	-0.006	-0.056	-0.027	0.093	-0.501	1.000

Note: AQ is asset quality; BS is board size; BI is board independence; BD is board diversity; FE is board financial expertise; size is bank size; GDP is gross domestic product; INFL is inflation. Source: computed from research data (2023)

4.2.2 Variance Inflation Factor

As a further step to diagnose the suitability of the dataset for the variables, the variance inflation factors (VIF) is performed to check the level of multicollinearity in the independent variables. The result of the VIF is presented in Table 4.3. As a rule of thumb, multicollinearity becomes a cause for concern when the VIF for specific variable is more than 10. The results in Table 4.3 shows that all the variables have VIF values less than 10. This indicates that there is no multicollinearity in the variables. Hence, dataset and all the variables satisfy the condition for the regression estimation.

Table 4.3: Variance inflation factor (VIF)

	VIF	1/VIF
BS	1.158	.863
BI	1.272	.786
BD	1.202	.832

FE	1.151	.868
Size	1.98	.505
GDP	2.531	.395
INFL	1.62	.617
Mean VIF	1.559	.

Note: BS is board size; BI is board independence; BD is board diversity; FE is board financial expertise; size is bank size; GDP is gross domestic product; INFL is inflation. Source: computed from research data (2023)

4.2.3 Hausman Specification Test

The Hausman test is conducted to determine whether the fixed effect model or the random effect model is ideal for the regression estimation on the data. The result of the test is shown in Table 4.4. As a rule of thumb, when the probability of chi square ($p > \chi^2$) is less than alpha level of 5%, the fixed effect is selected over the random effect. From Table 4.4, it is seen that the probability of the chi square is 0.000, less than alpha. Therefore, it satisfy the condition to employ the fixed effect model for the regression estimation.

Table 4.4: Hausman specification test

	Coef.
Chi-square test value	143.454
P-value	0.000

Source: computed from research data (2023)

4.3 RESULTS OF REGRESSION ESTIMATION

The regression result of the impact of CG on AQ is shown in Table 4.5. From the table, the F-statistics is 5.831 ($p = .000$) significant at 1% significance level. The results confirm the model's good of fit. In other words, it provides evidence that the parameters used in the study are

appropriate for the model. Thus, there is a statistical linear relationship between the dependent and independent variables. From the table, R-square is 0.386, meaning the 38.6% of the changes in the dependent variable is as a result of the collective influence of the predictor variables.

4.3.1 Effect of Board Size on Asset Quality

From Table 4.5, it is seen that the beta or coefficient for board size (BS) is .002. This gives indication that the relationship between BS and asset quality (AQ) is a positive one. Thus, when there is a change in BS by 1 unit, AQ will also change by .002 units but in the same direction. Aside, the result of the coefficient, it is important to note that conclusion on the significance of the relationship is drawn using the outcome of the p-value. From the table, it is found that p-value is .720. This is far beyond all the acceptable levels of significance. Hence, the p-value shows that BS and AQ has no significant relationship between them. This means that regardless of the positive relationship established between BS and AQ as indicated by the coefficient, there is not significant relationship between BS and AQ. This means BS has no strong impact on AQ.

Table 4.5: Regression results with asset quality (AQ) as the dependent variable

	Coef.	St.Err.	t-value	p-value	Sig
BS	.002	.006	.360	.720	
BI	-.288	.103	2.80	.007	***
BD	-.137	.099	-1.38	.172	
FE	.064	.081	0.79	.434	
size	-.038	.023	-1.61	.113	
GDP	-.005	.003	-1.48	.143	
INFL	.008	.003	3.15	.002	**
Constant	.717	.498	1.44	.155	

Number of obs. 80

R-squared	.386
F-stat	5.831
P-value	.000

*** $p < .01$, ** $p < .05$, * $p < .1$

Note: AQ is asset quality; BS is board size; BI is board independence; BD is board diversity; FE is board financial expertise; size is bank size; GDP is gross domestic product; INFL is inflation. Source: computed from research data (2023)

4.3.2 Effect of Board Independence on Asset Quality

For the effect of board independence on AQ, the result is presented in Table 4.5. From the table, it is found that the coefficient of regression for board independence (BI) is -.288. This indicates that there is a negative relationship between BI and AQ. Thus, when BI increase by a unit, AQ will reduce by .288 units. In other words, the coefficient value of .288 indicates that a 1% change in BI will lead to 28.8% change in AQ but in the opposite direction. Looking at the p-value which provides indication as to whether the relationship established by the coefficient is significant or otherwise, it is found that the p-value .007. The result of the p-value provides that the relationship between BI and AQ is significant at the 1% level of significance. This means that there is a significant negative relationship between BI and AQ.

4.3.3 Effect of Board Diversity on Asset Quality

From Table 4.5, it is seen that the beta or coefficient for board diversity (BD) is -.137. This gives indication that the relationship between BD and AQ is a negative one. Thus, when there is a change in BD by 1 unit, AQ will also change by -.137 units. Aside, the result of the coefficient, it is important to note that conclusion on the significance of the relationship is drawn using the outcome of the p-value. From the table, it is found that p-value is .172. This is far beyond all the acceptable

levels of significance. Hence, the p-value shows that BD and AQ has no significant relationship between them. This means that regardless of the negative relationship established between BD and AQ as indicated by the coefficient, there is not significant relationship between BD and AQ. This means BD has no strong impact on AQ.

4.3.4 Effect of Board Financial Expertise on Asset Quality

In Table 4.5, it is seen that the beta or coefficient for board financial expertise (FE) is .064. This gives indication that the relationship between FE and AQ is a positive one. Thus, when there is a change in FE by 1 unit, AQ will also change by .064 units but in the same direction. Aside, the result of the coefficient, it is important to note that conclusion on the significance of the relationship is drawn using the outcome of the p-value. From the table, it is found that p-value is .434. This is far beyond all the acceptable levels of significance. Hence, the p-value shows that FE and AQ has no significant relationship between them. This means that regardless of the positive relationship established between FE and AQ as indicated by the coefficient, there is not significant relationship between FE and AQ. This means FE has no strong impact on AQ.

4.4 DISCUSSION OF RESULTS

4.4.1 Effect of Board Size on Asset Quality

Regarding the effect of board size on asset quality, the study finds that there is a positive relationship between board size and asset quality but the relationship is established to be insignificant. Thus, suggesting that there is no significant relationship between the size of the governing board and the asset quality of listed banks in Ghana. This finding presents an interesting picture since one would have expect that larger board size comes with diverse expertise which help

in improving the quality the banks loan assets. Indeed, this outcome gives the possibility that the banks' board may be large enough but do not have the relevant expertise that is necessary to work at improving asset quality of the banks. It may also mean the board may possess the necessary expertise but their large nature makes them ineffective to address issues that hamper the asset quality of the banks, the existence of no significant relationship between the two indicators.

Interestingly, this current outcome agrees with the result of some prior studies while also showing inconsistency with other works. One of the study that the current result is consistent with is the study by Gupta and Sharma (2022). Here the authors sought to establish if there is a link between the size of the board and the quality of assets of Indian banks which emerged that there is no significant relationship between the two constructs. Also, the current result is insupport the finding of the study by Tahir et al. (2020) that conduct a study on the influence of corporate governance on quality of loans in Pakistan. Here, the authors tried to establish the existence of a relationship between board size and asset quality or otherwise. The study reveals no significant relationship between board size and asset quality.

Additionally, the current result support of other works which have address various relevant research gaps. One is the study pursued in Sri Lanka by Balagobei (2019). This study examine if corporate governance influence non-performing assets of the banks and established similar findings with the current study that there is no significant relationship between the board size and the asset quality of banks. Similarly, the result of the current study consistent with the findings of Gafoor et al. (2018) which reveal there is no significant relationship between board size and asset quality of banks. Again, the current result support the results of the studies by Shukla et al. (2020)

and Abdulazeez et al. (2019), all of which find that there is an insignificant relationship between board size and the asset quality of banks.

Unlike the above studies, the current finding is inconsistent with Moussa (2019), Egungwu and Egunwu(2018), and Fiador and Sarpong-Kumankoma (2020), all of which reveal that board size has a significant and positive relationship with the asset quality of banks. Again, the current result disagrees with the results of the studies by Gupta and Sharma (2023) and Osamor, Saka and Olatunji (2019) which equally find that there is a significant positive relationship between board size and asset quality of banks.

Again, it is observed that the current finding disagrees with the study by Ogada (2022). However, unlike the outcomes of the studies above, the work of Ogada (2022) shows that there is significant and negative relationship between board size and asset quality of banks. Thus, in effect, the result of the current study support as well as disagree with the outcomes of some prior studies.

4.4.2 Effect of Board Independence on Asset Quality

For the effect of board independence on asset quality, it is found that there is a positive relationship between board independence and asset quality of banks. It is further proven that the relationship between board independence and asset quality is significant. Hence, it can be said that the study finds a significant positive relationship between board independence and asset quality. Indeed, this finding paint a good picture that having a significant proportion of independent directors on the board help to put in place effective actions that help to improve the quality of assets of the banks.

Comparing this outcome with the results of some prior studies, it is quite interesting to note that there are streams of literature that the current study support. For instance, it is observed that the outcome of the current study agrees with Moussa (2019) and Gafoor et al. (2018) which find that a significant positive relationship exist between board independence and asset quality of banks. Similarly, comparison of the current finding with the results of the studies by Fiador and SarpongKumankoma (2020), Osamor, Saka and Olatunji (2019), and Gafoor, Mariappan and Thyagarajan (2018) shows that consistency in the current findings and the results of above studies.

In contrast, the result of the current study disagrees with the findings of the studies by Gupta and Sharma (2022) and Angahar and Mejabi (2014). In these studies, the authors report that board independence has no significant relationship with asset quality which is in contrast with the finding that a significant positive relationship exist between board independence and asset quality. Again, the current result disagrees with the findings of the studies by Balagobei (2019) and Abdulazeez et al. (2019) both of which establish that board independence has no significant relationship with asset quality. It is important to note that the current outcome is also inconsistent with the result of Ogada (2022). Unlike the above outcomes, the result of the study by Ogada (2022) reveal that there is a significant but negative relationship between board independence and asset quality.

4.4.3 Effect of Board Diversity on Asset Quality

In pursuit of the objective that seeks to establish the link between board diversity and asset quality, the study finds that there is a negative relationship between board diversity and asset quality but the relationship is established to be insignificant. Thus, suggesting that there is no significant relationship between the proportion female members on the board and the asset quality of listed

banks in Ghana. This outcome is quite interesting since it defeats the argument that having females of the board held to improve the effectiveness of the board due to the risk averse nature of females in general.

In comparison with the result of extant literature, it is observed that the current study agrees with the results of the study by Ogada (2022) which finds that board diversity has no significant relationship with asset quality of banks. Further, the current result agrees with Fiador and SarpongKumankoma (2020) who conclude that the diversity of the board in terms of female representation has not significant relationship with the asset quality of listed banks Ghana.

It is important to note that the current finding disagrees with the result of the study by Moussa (2019). In this study, the author report that board diversity significantly enhances the asset quality of the banks, which is at variance with the current result that board diversity has not significant link with asset quality. Again, the current outcome deviates from the result of Gupta and Sharma (2023) where the study established that there is a significant positive relationship between gender diversity and asset quality of banks.

4.4.4 Effect of Board Financial Expertise on Asset Quality

On the effect of board financial expertise on asset quality, the study finds that there is a negative relationship between board diversity and asset quality. However, it is further proven that the relationship is not significant. Therefore, it is concluded that there is no significant relationship between board financial expertise and the asset quality of banks in Ghana. This is quite shocking

as one would have expect that financial experts on the board will apply their expertise to enhance the asset quality prospects of the banks.

Juxtaposing this outcome with the findings of some prior studies, it is observed that the current outcome does not support the result of the study by Gafoor et al. (2018) that finds that the proportion of financial experts on the board has significant positive impact on asset quality. It is also noted that the current result is inconsistent with the result of studies done by Osamor, Saka and Olatunji (2019), Gafoor, Mariappan and Thyagarajan (2018), Ogada (2022), and Magembe et al. (2017) all of which reveal that board financial expertise exert strong and positive influence on the asset quality of the banks.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

5.0 INTRODUCTION

The chapter addresses the summary and conclusions of the study. It is made up four main sections. The first section is the summary of main findings. The second section is the conclusion. The third section presents the recommendations for policy and managerial considerations. The last section looks at the recommendations for further studies

5.1 SUMMARY OF FINDINGS

The first objective of the study seeks to examine the effect of board size on the asset quality of listed banks in Ghana. With respect to the first objective, the study finds that there is a positive

relationship between board size and asset quality but the relationship is established to be insignificant. Thus, suggesting that there is no significant relationship between the size of the governing board and the asset quality of listed banks in Ghana.

The second objective of the study seeks to examine the effect of board independence on the asset quality of listed banks in Ghana. On this objective, it is found that there is a positive relationship between board independence and asset quality of banks. It is further proven that the relationship between board independence and asset quality is significant. Hence, it can be said that the study finds a significant positive relationship between board independence and asset quality.

The third objective of the study seeks to examine the effect of board diversity on the asset quality of listed banks in Ghana. In pursuit of this objective, the study finds that there is a negative relationship between board diversity and asset quality but the relationship is established to be insignificant. Thus, suggesting that there is no significant relationship between the proportion female members on the board and the asset quality of listed banks in Ghana.

The fourth objective of the study seeks to examine the effect of board financial expertise on the asset quality of listed banks in Ghana. On this objective, the study finds that there is a negative relationship between board diversity and asset quality. However, it is further proven that the relationship is not significant. Therefore, this indicates that there is no significant relationship between board financial expertise and the asset quality of banks in Ghana.

5.2 CONCLUSION

This study is triggered by the growing trend of deteriorated asset quality as the number cause of bank failures and the limited knowledge on the influence of corporate governance on asset quality

in the Ghanaian context. Thus, the study investigates the relationship between corporate governance and asset quality of listed banks in Ghana. Specifically, the study seeks to examine the effect of board size, board independence, board diversity, and board financial expertise on the asset quality of the listed banks in Ghana. The study employs the quantitative approach and the explanatory research method, coupled with the desk strategy to pursue the objectives of the study. Secondary panel data spanning the period from 2013 to 2022 are used. The study employs the panel regression analysis to estimate the relationship between the variables. The stata software is employed to aid the analysis. The study reveals that there no significant relationship between the size of the governing board, board diversity, and board financial expertise on asset quality. Additionally, the study discovers that there is a significant positive relationship between board independence and asset quality of the banks. The study concludes that there is the need to strengthen and improve the independence of the board since it is critical in enhancing the asset quality of banks. Additionally, the study concludes that the result of the findings of the study challenges the validity of agency theory in the banking sector of Ghana and call for alternative explanations to understand the performance implication of corporate governance on the banking sector of Ghana.

5.3 RECOMMENDATIONS FOR POLICY

In the light of the findings of the study, the following recommendations are made for policy and managerial consideration.

It is found that board independence have a direct and significant relationship with asset quality; hence, it is recommended that bank owners ensure there is adequate representation of independent

directors at all times in order to effectively deal with practice that hamper the quality of bank loan assets.

It is found that board size does not influence the quality of bank loan assets. Therefore, it is appropriate that banks look at the composition of their boards so that they are not deceived by the idea that larger board size help to bring together diverse expertise for effective functioning of the board.

It is found that board diversity and board financial expertise also do not influence the asset quality of banks. Therefore, recommendation is provided that the board of directors of banks should be encourage to take their responsibilities with all seriousness so that the board can effectively improve the asset quality of banks.

5.4 SUGGESTIONS FOR FURTHER STUDIES

Suggestion is provided for future research as follows.

1. Future research can explore the qualitative aspect of corporate governance and how it influences the asset quality of banks since this area is limited in extant literature.
2. Future research can direct attention to how the structure and composition of the board of rural banks influence the asset quality of rural banks since this is absent in extant studies.

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