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Board of Directors and Firm Performance of Banking Institutions: A Ghanaian Experience

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Abstract

We examine how board characteristics and activities affect firm performance of banking institutions listed on the Ghana Stock Exchange. The data come from the annual reports of the banking institutions for the period, 2007-2012. The results of the study show that the proportion of non-executive directors on boards of these institutions positively influence their performances. This clearly highlights that the presence of non-executive directors on boards of these banking institutions enhances monitoring and advisory role of boards thus leading to firm performance. The results also reveal that the number of board meetings per year by the boards of the banking institutions positively affects firm performance. This implies that as the number of board meetings increases, the monitoring and advisory role of boards improves, hence translating into firm performance. The study however, did not provide any significant relationship between board size, the composition of audit committee membership and chief executive status, and firm performance. Our findings have implications for the design of suitable corporate governance structures for listed banking institutions. More so, the results provide information that can inform policy debates within the Securities and Exchange Commission of Ghana and Bank of Ghana.

Keywords: Board of directors, Firm performance, Banking Institutions, Tobin's Q, Return on Asset, Ghana

Introduction

The Basel Committee on Banking Supervision (BCBS) is the prime worldwide standard-setter in regards to prudent regulation of financial institutions. Also, it offers opportunities for cooperation with respect to supervisory issues in banking. Its authority is to fortify the supervision, regulation and

practices of financial institutions across the length and breadth of the globe with the aim of improving stability in the financial sector through sound corporate governance practices. This mandate then calls for the need to research, appreciate and enhance corporate governance practices of banking institutions (Andres & Vallelado, 2008). In September 1999, the BCBS published guidance (and was revised in February, 2006) to assist overseers of financial institutions. This guidance is aimed at promoting the implementation of effective corporate governance practices by banking firms globally. It is the belief of the committee that effective corporate governance can aid supervisors of banking institutions to have a concerted relation with management of these institutions, instead of an antagonistic one. With an adoption of sound corporate governance, banking institutions can mobilize and allocate funds effectively and efficiently, reduce the cost of capital, enhance capital formation and increase productivity (Levine, 2004).

Alexander (2004) contends that because of the risks associated with banking activities, corporate governance of banks has become a germane area that is needed to be given a critical attention globally. This attention then calls for the need to conduct research to appreciate the nuts and bolts of how corporate governance practices are undertaken in banking institutions and to suggest ways that can augment the existing governance structures to enhance these governance practices. Currently, a voluminous amount of studies has been conducted on corporate governance, but those that have concentrated on the banking sector are scant (Adegbite, 2012; Mülbert, 2009; Andres & Vallelado, 2008; Arun & Turner, 2004; Levine, 2004; Macey & O'hara, 2003; Adams & Mehran, 2003; Davis & Mizruchi, 1999). However, in order to appraise governance structures and to suggest measures to improve them in financial institutions, it is imperative to appreciate prevailing corporate governance practices in the banking sector. This is because proposals that are designed uniformly and do not take into consideration the differences among sectors of an economy may be ineffective in enhancing the governance structures and may have accidental negative implications (Adams & Mehran, 2003).

The limited corporate governance studies that have been undertaken on banking firms have largely focused on developed countries (Mülbert, 2009; Andres & Vallelado, 2008; Levine, 2004; Macey & O'hara, 2003; Adams & Mehran, 2003; Davis & Mizruchi, 1999). For instance, Andres & Vallelado (2008) used a sample of international commercial banks in the EU and US to test hypothesis on the dual role of board of directors. Adams and Mehran (2003) investigated the governance structures of thirty-five publicly-quoted Bank Holding companies (BHC) that were among 200 largest top-tiers BHC. Also, Leventis et al (2013) empirically examined whether US commercial banks with sound governance structures engage in higher levels of conservative financial accounting and reporting. These aforestated studies tacitly show that studies on corporate governance structures in banking institutions have largely focused on developed countries. To date, studies that have concentrated on developing countries, to the best of our knowledge, are the works of Adegbite (2012,) and Arun and Turner (2004). Notwithstanding these two, studies on how internal control mechanisms work in developing countries particularly, sub-Sahara Africa are meagre. In the light of this background, this study aims at partially filling this hiatus by examining how internal control mechanism works in banks to ensuring firm performance.

In the context of this paper, answers will be given in regards to the relation between board characteristics and bank performance. The study assumes that the proportion of non-executive directors on boards, board size, the number of board meetings, audit committee composition and chief executive status could unveil the capabilities of boards in their advisory and monitoring roles and consequently, reflect in bank performance. In developing countries, where law enforcement is a teething problem, corporate boards are considered a major governance mechanism to supervise corporate managers' actions and to advise them on strategic issues and their executions. Accordingly, the present paper will focus on the main internal control mechanism (that is, board of directors) as the only governance variable that influences bank performance. This paper contributes to the extant art of knowledge on corporate governance by advancing the discussion on how board characteristics can influence bank performance. It uses a sample of eight (8) banking firms listed on the Ghana Stock Exchange (GSE) for

the period, 2007-2012. Therefore, the study extends previous studies that have largely focused on developed countries to developing countries.

The remainder of the paper is structured as follows: Section 2 presents the study's literature. The methodology of the study is addressed in section 3. Section 4 presents the empirical results of the study. Finally, section 5 concludes the study.

Literature Review

The study follows Castellini and Agyemang's (2012) definition of corporate governance as the adoption of a set of powerful micro-policy instruments in a firm that is aimed to ensuring an efficient allocation of resources in accomplishing the objectives of its equity holders, succeed in the competitive market as well as maximizing its positive impacts on other stakeholders and at the same time, minimizing its negative influence on them. Therefore, the issue of corporate governance in banks does not significantly vary from that of any corporate organization (Andres & Vallelado, 2008). Previous works on corporate governance practices have provided the link between sound corporate governance practice and company performance (Leventis et al., 2013; Ghabayen, 2012; Chaghadari, 2011; Topak, 2011; Cole et al 2008; Sanda et al. 2003; Pinteris, 2002; Bhagat & Black, 2002; Weir & Laing, 2001) with evidences that are inconclusive. However, with these inconclusive results, it is still evident that the practice of effective corporate governance by companies leads to higher company performance (Andres & Vallelado, 2008; Kyereboah-Coleman & Biekpe, 2006; Gompers, Ishii & Metick, 2003; Weisbach, 1988). There are many factors in the corporate governance literature, but the main corporate governance characteristics employed in these previous works were; board composition, board size, board meetings, audit committee member composition, and the chief executive status.

It is contended that in order to uphold the effectiveness of monitoring and counseling roles of boards, it is not sufficient to simply appoint more directors (Andres & Vallelado, 2008). This is because; individuals who are to serve on boards have to possess the needed technical know-how to discharge their duties without any fear or favour. However, to sustain the efficiency of the supervisory and advisory roles of a board, non-executive directors who are endowed with the technical know-how, agility, zeal and the full twists and turns of financial issues ought to be appointed to the board. Accordingly, this will boost the monitoring, sleuthing, disciplinary and advisory roles of the board therefore, allowing directors to mitigate conflicts of interests between equity holders and insiders (Harris & Raviv, 2008). Corporate governance studies on the nexus between the proportion of non-executive directors on boards and firm performance provide inconclusive results. It is argued that non-executive directors have little conflicts of interest when monitoring and supervising management and therefore, when the monitoring and supervisory role commonly occurs, it is anticipated that there will be a direct connection between non-executive directors and bank performance (Andres & Vallelado, 2008). However, the presence of undue non-executive directors could probably collapse the monitoring, supervisory and counselling role of a board in that, it would perhaps hold back bank insiders who possess the know-how from serving on the board. Consequently, firm performance can be negatively affected by this development. Mace (1986) argues that boards that include inside directors have valuable knowledge about the operations of the firm, and that each advise given is valuable to the company. A perfect or ideal board ought to be the one that consists of both inside and outside directors. The insiders will bring their technical know-how to board meetings whilst outside directors provide relevant monitoring and sleuthing functions.

There are a number of studies that has shown that outside directors, on a condition that they are independent can maintain a series of checks and balances than inside directors (Babatunde & Olaniran, 2009; Kaplan & Minton 1994; Weisbach, 1988). Babatunde and Olaniran (2009) point out that the larger the proportion of Non-Executive Directors (NEDs) on boards, the likelihood that a) an outsider will be appointed as a Chief Executive Officer (CEO); b) a non-performing CEO will be booted out; and c) there will be board effectiveness, which will subsequently translate into firm performance. Andres & Vallelado, (2008) report a significant positive relationship between the proportion of non-

executive directors and firm performance in international commercial banks in the EU and US. Kaplan and Minton (1994) conducted a study on effectiveness of outside directors on Japanese boards. The authors conducted their study after a poor stock performance and earning losses in Japanese firms. They find that outside directors are better monitors of management. In their conclusion, they argued that such appointments, on the average, stabilized and consequently, improved corporate performance in Japan. Weisbach (1988) hypothesizes that outside directors are effective monitors of management by analyzing the correlation between firm performance and the probability of CEO turnover in firms whose boards are mostly dominated by outside directors, and firms that are otherwise. The study highlights that firms, whose boards are mostly made up of outside directors add to firm value through effective monitoring of CEOs. Kyereboah-Coleman and Biekpe (2006) also found a positive correlation between non-executive directors and firm performance. However, some studies have highlighted an insignificant relationship between non-executive directors and firm performance (John & Senbet, 1998; Hermalin & Weisbach, 1991). Bhagat and Black (2002) found no significant association between the proportion of non-executive directors on board and firm performance. Yermack (1996) revealed an insignificant relationship between the proportion of non-executive directors and firm performance.

There is a notion that boards that are larger enhance firm performance in that their members may consist of a wide array of individuals with the technical know-how to make strategic decisions, and this makes it extremely difficult for CEOs to overpower those boards. However, when boards become too large, they give way to individual members to avoid personal duty and responsibility as no one feels that he or she will have enough influence to make a significant investment of time and energy. Murali (1996) affirms that while extra directors may enhance board's checks and balances, they may as well delay decision-making processes. However, Colley *et al*. (2005) put forth that both smaller and larger boards are associated with some advantages and disadvantages. On the one hand, smaller boards are inclined to be more concerned and focused, and their members frequently find it easier to build trust among each other and work jointly. However, smaller boards are vulnerable to the controlling prowess of preponderant clique/personality. On the other hand, as boards turn out to be larger, they create talents of pool that could perhaps assist boards' monitoring and controlling roles. But keeping such larger number of individuals to work together effectively and efficiently as a team is difficult. Empirical studies have supported the assertion that both smaller boards and larger boards could possibly translate into firm performance. For instance, Kanjola (2008) in a study on the relationship between governance mechanisms and firm performance in Nigerian firms find a significant positive relationship between board size and firm performance. Also, Kyereboah-Coleman and Biekpe (2006) find a significant positive relationship between board size and firm performance in Ghanaian firms. Other studies also confirm a positive relationship between board size and firm performance (see Sanda et al., 2003; Mak & Yuanto, 2003; Liang & Li, 1999). In the same vein, other studies have reported a negative relationship between board size and firm performance. Gautschi and Jones (1987) in a study on the relationship between corporate board structure and illegal corporate behavior find that corporations that have larger boards are more likely to engage in a more criminal activity than corporations with smaller boards. Eisenberg et al. (1998) in a study on Finnish firms report a negative association between board size and firm performance. Sanda et al. (2003) also report a negative relationship between board size and firm performance in Nigerian firms. Other studies have also confirmed a negative correlation between board size and firm value (DeAndrea, Azofra & Lopez, 2005; Yermack, 1996).

Furthermore, conducting a research on board characteristics and firm performance without taking into account board meetings is just like going to Rome without finding time to have a glimpse of the ancient Colosseum. Board meeting are board gatherings in which discussions are made concerning the discharge of the decision rights delegated by shareholders. They are meant to provide guidance and oversight. Therefore, the programme of the board has to encompass all vital issues of the firm. These meetings have to be effective and efficient in a manner that will inform board members about the issues the firm is encountering and how to deal with them. However, the number of board meetings

plays an important role to ensuring firm performance. This is because when meetings are frequent and efficient; the monitoring and advisory role of boards is enhanced, which will subsequently translate into firm performance. However, in order for directors to function and give what are inside of them to the benefit of the company, they should be fully informed about all the major developments of the company. Andres and Vallelado (2008) posit that the labyrinthine nature of the banking business as well as the relevance of information intensify the importance of the advisory and monitoring role of boards. Contrariwise, regular or habitual board meetings would probably be as a result of the response of board of directors to poor performance (Andres & Vallelado, 2008). Studies on board meetings and firm performance have given inconclusive results. On the one hand, some studies report a positive relationship between board meetings and firm performance. For instance, Andres and Vallelado (2008) report a significant positive relation between the number of board meetings and firm performance using a sample of large international commercial banks in the EU and US. On the other hand, other studies have also reported a negative relation between the number of board meetings and firm performance. For example, Vafeas (1999) using 307 companies over the period, 1990-1994 reports a significant negative relation between the number of board meetings and firm performance.

It is not every corporate issue that is discussed and interrogated by the full board thus the need to set up board committees. This implies that effective boards need effective committees that are made up of independent qualified members. One of such committees is the audit committee and it is perhaps the most important board committee in that it is responsible for overseeing the corporation's dealings with its external auditors and supervising the corporation's financial reporting procedure as well as assessing the financial statements of the firm (Lipman & Lipman, 2006; Jacques du Plessis, Hargovan & Bagaric, 2011; Felo, 2011). Massen (1999) contends that audit committees are connected to the control functions of the board. Canyon and Mallin (1997) also point out that audit committees potentially offer numerous benefits. However, to realise these benefits, members of audit committees must consist of independent non-executive directors who possess the aptitude, agility and the zeal to appreciate the intricacies of accounting and auditing. Previous studies on audit committee member composition and firm performance have revealed inconclusive results. On the one hand, some studies have established a positive relationship between audit committee composition and firm performance (Anderson, Mansi & Reeb, 2004; Klein, 2002). Kirkpatrick (2009) reports a positive relation between audit committee composition and firm performance. Petra (2007) in reviewing related literature on the proportion of audit committees and firm performance concludes a positive relation between the proportion of non-executive directors on audit committees and firm performance. On the other hand, other studies have also reported an insignificant relationship between the proportion of non-executive directors on audit committees and firm performance. For example, Ghabayen (2012) in a study on board characteristics and firm performance in corporate organisations in Saudi Arabia, reports an insignificant relationship between audit committee composition and firm performance. Also, Kanjola (2008) in a study on Nigerian firms reports an insignificant association between the proportion of non-executive directors on audit committees and firm performance.

The leadership structure of a board has influence on how well the board is able to demonstrate its monitoring and controlling functions over its management, which will eventually affect firm performance (Agyemang & Aboagye, 2013; Kanjola, 2008; Sanda *et al*., 2003, Pease & McMillan, 1993; Rechner & Dalton, 1991). The principal-agent problem is intensified when one person takes on the roles of the board chair and chief executive. Pease and McMillan (1993) postulate that in order to ensure objectivity by avoiding the concentration of power in the hands of one individual, there is the need to separate the roles of the board chairperson and the CEO. The combination of the roles of the chairperson and CEO will lead to a compromise (finding the middle ground) between them, but their separations will enrich the board's independence while monitoring the CEO. There are mixed evidence in the related literature pertaining to the relation between the chief executive status and firm performance. Some studies establish a positive relationship between chief executive status and firm performance. For instance, Sanda *et al*. (2003) report a positive relationship between chief executive status and firm performance. Rechner and Dalton (1991) in a study on a sample of Fortune 500

companies report a positive relation between chief executive status and firm performance. Kanjola (2008) reports a significant positive association between chief executive status and firm performance in Nigeria. However, other studies have reported insignificant relationship between chief executive status and firm performance. For example, Liang and Li (1999) find insignificant relationship between chief executive status and firm performance. Daily and Dalton (1992) report an insignificant relationship between chief executive status and firm performance in entrepreneurial companies. Notwithstanding these mixed results, FinKelstein and D'Aveni (1994) argue that both the combined structure and separated structure could probably influence firm performance of a corporate business depending on how they are fit with the internal and external conditions of that organisation.

Methodology

The study employed essentially data derived from the audited financial statements of the eight (8) banking firms listed on the Ghana Stock Exchange (GSE). The rationale for the use of listed firms was basically as a result of the availability and reliability of data for the stud y's analyses. This is because these listed firms are mandated by law to make available their end of year reports on their finances. The study concentrated on banks alone due to the special regulatory environment in which they operate, consistent with a study by Andres & Vallelado (2008). The study's data spanned 2007 to 2012, a six year period. Following the works of Kanjola (2008) and Uadiale (2010), the study employed a multiple regression methodological approach and the estimation method was Ordinary Least Squares (OLS). The endogenous variables are Tobin's Q and Return on Assets (ROA), which proxy performance for firm i in time t. The exogenous variables are; the proportion of non-executive directors on boards (NEDS), board size (BSIZE), the number of board meetings per year (BMEET), the proportion of non-executive directors on audit committees (AUD) and a dummy variable (CEO) to capture whether the board chair is the same as the chief executive or otherwise and $\mathcal{E}$, the disturbance term.

Specifically, the regression model is:

$$PERFORMANCE_{i,t} = \beta_0 + \beta_1 NEDS_{i,t} + \beta_2 BSIZE_{i,t} + \beta_3 BMEET_{i,t} + \beta_4 AUD_{i,t} + \beta_5 CEO(DUMMY)_{i,t} + \varepsilon_{i,t}$$

Measures

Performance: Although there are many measures that can be found in the extant literature on corporate governance to measure firm performance such as stakeholder satisfaction (Clarkson, 1995), the study employed the commonly used method of measuring firm performance. Accordingly, two financial measures of firm performance specifically, Tobin's Q and Return on Assets (ROA) were employed. These two financial measures of firm performance are categorized into two: Accounting-based measures and Market-based measures. The accounting-based measures are historical and thus undergo 'a more backward and inward looking focus' (Nicholson & Kiel, 2003). Some of the examples of accounting-based measures that have been used in the extant governance literature are return on assets (Kyereboah-Coleman & Biekpe, 2006; Nicholson & Kiel, 2003), return on equity (Kanjola, 2008; Uadiale, 2010) and earnings per share (Pearce & Zahra, 1991). It is contended that accounting-based measures are historical in nature and thus lag the real actions that lead to the outcomes (Nicholson & Kiel, 2003). However, the study employed ROA as a measure of performance since it is one of the predominantly-used measures in the governance literature. Consequently, ROA has been computed in this study by dividing profit after tax by total assets.

Even though market-based measures of company performance are basically associated with the total value placed on corporate organisations by the market, they may not carry any association with prevailing operations, asset valuations or even company's historical net income (Nicholson & Kiel, 2003). The anticipated earnings of a firm are emphasized by these valuations. And therefore, these valuations are regarded as forward-looking indicators that mirror prevailing corporate plans and strategies. Market-based measures include Tobin's Q (Barnhart, Marr & Rosenstein, 1994), market to

book ratio or structured indices like the Sharpe measure (Hoskisson, Johnson & Moesel, 1994). Given that the capital market of Ghana is progressively strengthening, the study followed Kyereboah-Coleman and Biekpe (2006), Kanjola (2008), Uadiale (2010) and many others in applying Tobin's Q as a performance variable. It is assumed that under a vibrant capital market, any positive effects of board characteristics would unhesitatingly be clear to market participants and consequently reflect in a company's market capitalization (Fama, 1998). Tobin's Q was measured in this study as the market value of equity plus book value of assets less book value equity, all divided by the book value of assets.

NEDS: The proportion of non-executive directors on the board
BSIZE: Total number of directors on the board
BMEET: The number of board meetings per year
AUD: The proportion of non-executive directors on the audit committee
CEO: This is a dummy variable that takes the value of 1, if the positions of the CEO and board chair are separated and 0 for otherwise.

Data Analysis and Discussion

Table 1 below depicts the descriptive statistics of both the endogenous and exogenous variables employed in this study.

Table 1: Descriptive Statistics of the variables

	TOBIN'S Q	ROA	NEDS	BSIZE	BMEET	AUD	CEO
Mean	0.869167	4.150208	6.500000	8.916667	5.812500	3.687500	0.875000
Median	0.875000	3.300000	7.000000	9.000000	5.000000	3.000000	1.000000
Std. Dev.	0.074085	3.003712	1.774524	1.711455	1.964106	0.829156	0.334219
Maximum	1.210000	15.94000	10.00000	13.00000	12.00000	5.000000	1.000000
Minimum	0.690000	1.300000	3.000000	6.000000	4.000000	3.000000	0.000000
Skewness	1.586919	2.332757	-0.323227	0.053377	1.150166	0.632095	-2.267787
Kurtosis	11.13579	8.421714	1.908692	2.320990	3.773909	1.772542	6.142857
Probability	0.000000	0.000000	0.200117	0.623473	0.002766	0.044832	0.000000
Sum	**41.72000**	**199.2100**	**312.0000**	**428.0000**	**279.0000**	**177.0000**	**42.00000**
Observations	**48**	**48**	**48**	**48**	**48**	**48**	**48**

Note: Observation = sample size by the six year period (8*6)

The average board size of the sampled Ghanaian publicly-traded financial firms is relatively moderate containing an average of 8 directors ranging from 6 to 13. And with a deviation of 1.71, which overtly implies that financial companies in Ghana have relatively similar board sizes. This evidence is considered good by researchers like Lorsch (2009), Lipman and Lipman (2006) and Larcker and Tayan (2011) who contend that the fewer members a board has the easier it is for board members to deliberate on issues and to reaching a consensus, which eventually reflects in firm performance. Boards of Ghanaian financial firms are more independent in that the mean proportion of non-executive directors is about 7 with a median of 9. The results highlight that the boards of the sampled firms on average, hold 6 meetings per year with a range from 4 to 12. With respect to the membership composition of the audit committees of the firms, on average, they are made up of about 4 members with a range from 3 to 5. This is laudable in the sense that independence of audit committee members has become the new coin of the realm as suggested by researchers such as Conger and Lawler (2009), and Ward (2003). Also, the results highlight that 87.5% of the sampled financial firms have separate individuals occupying the positions of the chief executive and the board chair. This demonstrates that the possibility of the principal-agent problems originating from conflict of interest among stakeholders is reduced within these financial firms. In regards to Tobin's Q as a proxy for firm performance, most of the sampled financial institutions seem not to perform well, because they fail to

break-even. Whilst the maximum performance is 121%, the minimum performance is 69%. With respect to return on average (ROA), the mean performance of 4.1% with a median of 3.3% is reported.

Regression Results and Discussion

Correlation

Tables 2a and 2b portray a simple correlation between the variables. The tables highlight that there is a significant relationship between some demographic variables; board size, proportion of non-executive directors, number of board meetings and audit committee composition. Particularly, larger board size is significantly associated with a greater proportion of non-executive directors and a greater number of non-executive directors on audit committees. A high proportion of non-executive directors is associated with a greater number of board meetings.

Furthermore, the results of table 2a depict that Tobin's Q is positively associated with the proportion of non-executive directors, the number of board meetings, proportion of non-executive directors on audit committees and chief executive status. This implies that better performance is related to a higher proportion of non-executive directors, a greater number of board meetings, a higher proportion of non-executive directors on audit committees and chief executive status. However, it is only the proportion of non-executive directors and the number of board meetings that are significant at 5% and 1% levels respectively. Meanwhile, board size is negatively related to performance, but insignificant.

Moreover, table 2b illuminates that ROA is positively correlated with the proportion of non-executive directors, board size, the number of board meetings, the proportion of non-executive directors on audit committees and chief executive status. This suggests that better performance is correlated to a higher proportion of non-executive directors, a larger board size, a higher number of board meetings, a higher proportion of non-executive directors on audit committees and chief executive status. However, the proportion of non-executive directors on boards, the number of board meetings and the proportion of non-executive directors on audit committees are the variables that are significant at 5%, 1% and 1% levels respectively.

Table 2a: Correlation-Tobin q as a Proxy for Firm Performance

Variable	1	2	3	4	5	6
1. TOBIN Q	1.000000					
2. NEDS	0.279357*	1.000000				
3. BSIZE	-0.082807	0.277365*	1.000000			
4. BMEET	0.357423**	0.383276**	0.152906	1.000000		
5. AUD	0.233116	0.155234	0.416067**	-0.058172	1.000000	
6. CEO	0.090231	0.057776	0.055795	0.073034	-0.143958	1.000000

*p< 0.05(one-tailed)
** P<0.01(one-tailed)

Table 2b: Correlation-ROA as a Proxy for Firm Performance

Variable	1	2	3	4	5	6
1. ROA	1.000000					
2. NEDS	0.324177*	1.000000				
3. BSIZE	0.018787	0.277365*	1.000000			
4. BMEET	0.190344**	0.383276**	0.152906	1.000000		
5. AUD	0.119457**	0.155234	0.416067**	-0.058172	1.000000	
6. CEO	0.067847	0.057776	0.055795	0.073034	-0.143958	1.000000

*p < 0.05 (one-tailed)
**p<0.01(one-tailed)

Analysis of Variance (ANOVA)

The analysis of variance of the variables is illuminated in tables 3a and 3b below. The analysis demonstrates F-values of 7.263(sig.0.0000) and 8.484 (sig.0.0000) for Tobin's Q and ROA respectively. This overtly exhibits that there is a strong association between the endogenous variables (Tobin Q and ROA) and the exogenous variables (the proportion of non-executive directors on boards, board size, board meetings, proportion of non-executive directors on audit committees and chief executive status) at 1%, 5% and 10% significant levels.

Table 3a: Dependent Variable: Tobin's Q

	Sum of squares	Df	Mean square	F	Sig.
Between groups	374749.7	5	74949.94	7.263	0.0000
Within groups	9339.586	282	33.11910		
Total	**384089.3**	**287**	**13338.290**		

Predictors: (constant), NEDS, BSIZE, BMEET, AUD, CEO
Dependent variable: Tobin's Q

Table 3b: Dependent Variable: ROA

	Sum of squares	Df	Mean square	F	Sig.
Between groups	189092.2	5	37818.44	8.484	0.0000
Within groups	7183.967	282	25.47506		
Total	**196276.2**	**287**	**683.8892**		

Predictors: (constant), NEDS, BSIZE, BMEET, AUD, CEO
Dependent variable: ROA

Regression Analysis

Table 4 below illuminates the regression results of the relationship between the performance variables (Tobin's Q and ROA) and governance variables. The results explicitly highlight mixed results between the performance variables and governance variables.

Contrary to the works of Kyereboah-Coleman and Biekpe (2006) and Sanda *et al*. (2003), the study shows a positive relationship between the proportion of non-executive directors on boards and the two performance variables. This result is consistent with the contention that appointing outside directors to serve on boards enhances the supervision, monitoring, controlling and sleuthing of management by the board and eventually, minimizes the conflict of interest among stakeholders. Also, this result delineates the importance of advisory roles of boards of directors. This is because as a bank appoints an outside director with advisory abilities to its board, its strategic decisions will enhance. This result is consistent with Babatunde and Olaniran (2009), Kaplan and Milton (1994) and Weisbach (1988) that the involvement of non-executive directors enhances monitoring and advisory prowess of boards.

In regards to board size, the results suggest that it is negatively associated with the two performance variables and that as the board size expands, firm performance declines. This result is in sharp contrast with other studies by Cole, Daniel and Naveen (2008), and Adams and Mehran (2003) which suggest that large boards will offer more outside directors to monitor and advise management leading to a reduction in conflict of interest among stakeholders. However, it is argued that when the board becomes so large, most members particularly, new ones fail to bring on board useful ideas thus leading to communication and decision-making problems (Larcker & Tayan, 2011; Lorsch, 2009; Andres & Vallelado, 2008). This result is consistent with the works of Shukeri, Shin & Shaari (2012), DeAndrea, Azofra and Lopez (2005), and Yermack (1996). However, it must rather be highlighted that this variable is found to be insignificant in influencing firm performance in this study.

Table 4: Regression results

	Unstandardized coefficient		Standardized coefficient	
Exogenous variables	**Tobin's Q**	**ROA**	**Tobin's Q**	**ROA**
NEDS	0.098712	0.081720	0.142740* [2.785612]	0.321916* [2.026982]
BSIZE	-0.051069	-0.340493	-0.142740 [-0.754737]	-0.194006 [-1.179796]
BMEET	0.087541	0.107348	0.329666* [2.185979]	0.070194 [0.447920]
AUD	0.001843	0.593696	0.223396 [1.398624]	0.163886 [1.013550]
CEO	0.023744	0.693139	0.096960 [0.6932271]	0.077125 [0.528737]
R square	0.203670	0.143640		
Adjusted R square	0.108868	0.041693		
F-Statistics	2.148385	2.053456		
Number of Observation	48	48		
Durbin-Watson	1.786982	1.801945		

*p<0.05, **p<0.01, t-statistics are shown in the parentheses

The results also indicate a positive relationship between the number of board meetings (BMEET) and the two performance variables. This implies that board meetings are more pragmatic than idealistic in the sampled financial institutions. The more boards hold board meetings, the more strategic decisions are being taken to enhance firm performance. This finding, in tandem with the relation between the proportion of non-executive directors and firm performance, clearly highlights the importance of non-executive directors on boards in regards to the advisory role of boards of directors. This positive influence of board meetings on firm performance would probably be associated with the counselling role of boards. Anytime boards are mostly made up of non-executive directors, it is anticipated that the board's strategic intent will complement its monitoring role. This implies that the more frequent the meetings, the more detailed the control and monitoring of management as well as a more significant advisory role, which eventually has a direct effect on performance (Andres & Vallelado, 2006). This result is consistent with the studies of Andres-Alonso and Vallelado-Gonzalez (2006), and Andres and Vallelado (2008). It must rather be shown that this variable is relatively significant in influencing firm performance in that, whilst it is significant in influencing Tobin's Q, it is insignificant in influencing ROA.

In regards to the proportion of non-executive directors on audit committees, the study reveals that the higher the proportion of non-executive directors on audit committees the greater the firm performance. This result, along with the positive relation between the proportion of non-executive directors on boards and firm performance, lucidly points out the relevance of non-executive directors on corporate boards. Non-executive directors who have the aptitude, agility and zeal to appreciate the full twists and turns in accounting and auditing concepts are always in a position to offer quality financial reporting and strengthen the works of both internal and external auditors devoid of management's influence, which eventually enhances firm performance. The audit committee members of the sampled financial institutions possess the latest knowledge on the nuts and bolts of audit and byzantine financial instruments (Ward, 2003) to enhance firm performance. This result reinforces the findings of Klein (2002), and Anderson et al. (2004) that there is a positive relation between the proportion of non-executive directors on audit committees and performance variables. However, it must be stated that this study did not find any significant relation between the proportion of non-executive directors on audit committees and performance variables.

Finally, the result of the relation between the chief executive status (CEO) and the performance variables is positive. This is consistent with studies that have found that the one-tier board system results in a concentration of power in the hands of a single individual thus leading to a conflict of interest (Agyemang & Castellini, 2013; Millstein & McAVoy, 2003; Pease & McMillan, 1993; Jensen,

1993). Berghe and Levrau (2004) contend that the separation of the roles of the chief executive and the board chair reduces the supremacy of management on the board. In the context of a developing country, Kajola (2008), and Kyereboah-Coleman and Biekpe (2006) found a positive relationship between chief executive status and firm performance. However, like other studies Baliga, Moyer and Rao (1996), and Daily and Dalton (1997), this study did not find any significant relationship between chief executive status and firm performance.

Conclusion

The study examined the relation between some corporate governance variables such as the proportion of non-executive directors on corporate boards, board size, the number of board meetings per year, audit composition and chief executive status, and firm performance of banking institutions listed on the Ghana Stock Exchange. The study reveals the average board size of the sampled banking institutions of 8, signifying a relatively moderate board size in banking institutions in Ghana. In regards to the proportion of non-executive directors on boards, the study highlights a mean proportion of 7 with a median of 9, depicting that most of the board members of the sampled financial institutions are non-executive directors. Also, it is evident that boards of the banking institutions hold on average, 6 meetings every year. In relation to the membership composition of the audit committees of the firms, on average, they are made up of about 4 members.

Furthermore, the results illuminate that 87.5% of the banking institutions have separate individuals occupying the two topmost positions; the CEO and board chair positions. In addition, the regression results highlight that the proportion of non-executive directors on boards has significant positive association with firm performance. This overtly shows that the presence of non-executive directors on boards of these banking institutions enhances monitoring and advisory role of boards thus leading to firm performance. Also, the regression results show a positive and significant relationship between the number of board meetings per year and firm performance. This implies that as the number of board meetings increases, the monitoring and advisory role of boards improves, hence translating into firm performance. It is clear therefore, that corporate governance structures influence firm performance in banking institutions in Ghana. Undeniably, within the governance structures, the proportion of non-executive directors on boards and the number of board meetings per year by boards of banking institutions positively affect firm performance. Accordingly, for efficient performance, the increment of the proportion of non-executive directors and the number of board meetings per year by boards of banking institutions in Ghana is critical.

Limitations and Directions for Further Research

There are some limitations inherent in this study. First and foremost, the findings cannot be generalized to other financial institutions that were not included in this study. A fertile area for further study would be to examine this phenomenon using a larger sample across all financial institutions to access the generalizability of our findings. Also, the study only concentrated on how board characteristics influence firm performance, but it is worth considering that activities of banking institutions are always regulated. Consequently, future studies can be conducted by taking into account how regulations affect the performances of banking institutions. Finally, other possible factors that could account for firm performance in these institutions such as leverage, firm size, ownership structure year effects, among others were not included in our analysis. Therefore, future studies could be conducted to encompass such factors.

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