



ASHESI UNIVERSITY COLLEGE

Ghana's 2018 Banking Sector Crisis: The Role of Corporate Governance Factors

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DECLARATION

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

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Date: Monday, 11th May 2020

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation, laid down by Ashesi University College.

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Date:

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LIST OF ABBREVIATIONS

Abbreviation	Meaning
BFT	Business and Financial Times
BoG	Bank of Ghana
CAR	Capital Adequacy Ratio
IFC	International Finance Corporation
M&As	Mergers and Acquisitions
NPLs	Non-Performing Loans
OECD	Organization for Economic Co-operation and Development
CEO	Chief Executive Officer

ABSTRACT

Discussions and analysis' after the 2018 banking crisis have placed the burden of blame on both managers of the failed institutions and the Bank of Ghana. This study intended to investigate issues with the manner of corporate governance employed by leaders of the collapsed institutions and how these factors contributed to the banking crisis.

A total of 186 newspapers between 2017 and 2019 were scanned for insight regarding the direct actions of managers and shareholders that led to the collapse of their banks during the 2018 Ghanaian banking crisis. 58 texts were identified, and a content analysis was conducted. The actions were also analyzed and categorized using the IFC's corporate governance methodology. This study provides valuable insight regarding the actions of bank managers and shareholders and how these actions caused the collapse of their banks.

The actions of managers and shareholders leading to the crisis included: interrelated lending, loan approval without the necessary process, granting of loans earning no interest, lending to risky borrowers, breaching the single obligor limit, the use of depositors' funds as personal funds, shareholder excessive control of managers, exaggerating investments, overstating loans and advances to customers, fabricating investments, re-engineering capital, misuse of BoG liquidity support, use of bank funds to pay off obligations in related companies, infrequent board meetings, non-executive directors disregarding their duties and the approval of large compensation packages.

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CHAPTER 1: INTRODUCTION

1.1 Background

According to Prunac (2015), Banks are both a symptom of, and a foundation for economic health. A country's level of productivity depends largely on the fortitude and efficiency of its banks (Ikhide, 2009). The basis for the construction of banks is to promote financial collaboration by redirecting funds from the surplus segment to the deficient segment of the economy (Oluitan, 2014). Banks are able to promote economic activity by essentially serving as intermediaries between lenders and borrowers. In the case of developing countries such as Ghana, small-scale businesses who are likely to have difficulties in accessing capital for expansion, can easily look to banks for financing (Ikhide, 2009). By redirecting funds, banks create a system where enterprises can grow and expand their operations. These expansions lead to increased economic activity in the economy.

Again, in the case of developing countries, Kassim and Majid (2008) found that not only is there a direct correlation between bank loans and real economic activity, but banks also serve as an instrument of monetary policy implementation. Consequently, the frailty of the banking industry will adversely affect the real economy and thus, promoting a robust and stable banking system is a prerequisite for economic sustainability (Kassim and Majid, 2008).

Banking in Africa

According to a 2015 report by the AfDB, Sub-Saharan Africa is reported to have had the lowest financial depth (24%) when compared to other world regions. Financial depth for the report was measured by matching domestic credit to the

private sector, as a percentage of GDP. (AfDB, 2015). Additionally, the lowest financial depth value for the region was recorded by West Africa (20.3%). Challenges in evaluating borrowers' credit history, repayment ability and a general absence of the adequate systematic requirements are among some of the reasons for the region's low financial depth. Per AfDB's 2015 report, less than 3% of adults in West Africa are listed on a public credit registry. A phenomenon that makes lending difficult for banks. Banks in Sub-Saharan are faced with a myriad of issues such as a limited national consumer base, meager earning levels and inefficient legal systems (European Investment Bank, 2013).

2017 data from The Global Economy (2019) establishes Equatorial Guinea as the African country with the highest percentage of NPLs (27.2%). With 25.8% of its loans being described as non-performing, Chad had the second highest percentage of non-performing loans. South Africa and Namibia recorded the lowest percentage of NPLs with 2.84 % and 2.49% respectively. The continent's average for the year was 11.6%. Ghana had the fourth highest NPL ratio in Africa and the eighth highest ratio in the world according to The World Bank (2019). The global average of NPLs in 2017 was 7.44 % (The Global Economy, 2019), this when compared to Africa's average of 11.6% underscores the challenges being faced by the continents financial sector.

Banking in Ghana

Banks began operating in the Gold Coast during the colonial era primarily to offer monetary support to British businesses. 1896 saw the Bank of British West Africa (currently known as Standard Chartered Bank) open its first branch in Accra. The conducive economic environment lured other foreign banks to start their

operations in the country as well. Between 1920 to 1950 The Bank of British West Africa and Barclays Bank were the only functioning banks in the country. The first local bank (The Ghana Commercial Bank) began operations in 1953 to decrease the control by foreign banks. Shortly after independence in 1957, the Bank of Ghana was established to regulate the Ghana's currency and banking industry. By 1974, a number of Development Financial Institutions (DFIs) had been established to provide services being overlooked by commercial banks. These DFIs included the Social Security Bank, Merchant Bank, Agricultural Development Bank among others.

Banks existing between 1960 and 1970 were noted to either be wholly or majority owned by the public sector. This led to the government undertaking a campaign to privatize the sector in 1992. This move resulted in an increase in the number of domestic and foreign banks in the country. "The liberalization of the financial sector under the Financial Sector Adjustment Program (FINSAP) and Financial Sector Strategic Plan (FINSSIP) also brought about improved savings, enhanced deposit mobilization, financial deepening, and competition in the banking industry" (IIAS, 2015, para 3). There was also the implementation of the new Banking Act of 2004 which eradicated secondary reserves and modified the minimum capital requirement. The minimum capital requirement was then increased from GHS 60 million in 2007 to GHS 100 million in 2013.

By the end of December 2016, Ghana's banking sector continued to show signs of tenacity. The industry's total assets had increased by 29.8% to GHS 96.52 billion from GHS 74.38 billion in the same period in 2015 (Bank of Ghana, 2017). The Bank of Ghana described the banking sector as being quite stable despite the high ratio of gross Non- Heritage Bank were granted licenses to being operating as

commercial banks. These additions brought the total number of Deposit Money Banks to 33.

The profitability of the industry however, decreased in 2016. This was evident from the various profitability indicators for the industry. The industry's return on equity declined from 21.4% (2015) to 17.3% (2016). Similarly, return on assets also declined from 4.5% to 3.8% as did the return on earning assets from 6.1% in 2015 to 5.1% in 2016 (Bank of Ghana, 2018). High interest costs and a rising non-performing loan ratio were blamed for this.

In 2017, the competence of some of Ghana's banks were called into question as the country's stock of non-performing loans stood at 19.7% (PwC, 2018). This high percentage of loan defaults led to lenders adopting more rigid credit policies such that, even with a reduction in the lending base rate from 25.5% (2016) to 20% (2017), the total value of loans and advances declined by 10% for the period (PwC, 2018).

According to The World Bank (2019), "a bank loan can be classified as nonperforming when payments of principal and interest are 90 days or more past due, or when future payments are not expected to be received in full". Non-performing loans are extremely relevant as they are indicative of the banking industry's asset and credit quality. "Understanding the factors that influence the level of NPLs is crucial for the risk management function of banks and for national bank supervisors responsible for banking stability" (Ozili, 2019). Ozili (2019) again found that NPLs positively correlate with banking concentration and banking crisis and negatively correlate with regulatory capital and bank liquidity. High NPLs negatively affect banks' profits as the interest income for loans is the primary source of revenue for

banks. They further reduce the ability of banks to lend to borrowers who invest in their enterprises to help grow the economy.

The plague of high non-performing loans in Ghana's banking industry has been attributed to the high operating costs owing to the increased cost of energy and input materials. The inability of the government to pay back loans for construction projects was also been identified as a reason for the high number of loan defaults (Boachie, 2016). However, Akrong (2017) blamed the "irresponsible credit decision" of lenders for the phenomenon. The commerce and finance sector was the highest receiver of industry loans for 2016, with 24.5% of all loans being directed to the sector. Correspondingly, it also had the highest percentage of non-performing loans.

The Bank of Ghana

It would be impractical to analyse the corporate governance errs of the banking sector without giving a brief overview of the industry's regulator and its functions. The Bank of Ghana (BoG) is the central bank of Ghana and has "overall supervisory and regulatory authority in all matters relating to banking and non-banking financial business, with the purpose of achieving a sound efficient banking system in the interest of depositors and the economy as a whole " (Bank of Ghana, 2020, Regulatory Framework section, para. 1). The essential functions of the bank are laid down in act 612 of the 2002 Bank of Ghana Act and these inform the bank's mandate which generally requires a stringent regulation of the country's banking sector. Its regulatory operations are constructed in accordance with the Basel Core Principles for Effective Banking Supervision (Bank of Ghana, 2020).

The Crisis

In August 2017, Ghana Commercial Bank (GCB) took over both UT and Capital Bank. This take-over signified the advent of what was to be a tedious transitional period for Ghana's Banking sector. As at August 2017, 35 commercial banks were licensed to operate in the country. Fast-forward just two years later, this number reduced to 23. This drastic reduction does not fully represent the intriguing happenings that transpired within the two-year period.

The increment in the central bank's minimum capital requirement from GHS 120 million to GHS 400 million in September 2017 provoked 16 banks to acquire fresh capital injections or capitalize their income surplus'. Applications for mergers were also granted. Specifically, the mergers were between First Atlantic and Energy Commission bank, Omni Bank and Sahel-Sahara, and First National Bank and GHL Bank. Each of the three resulting banks from the mergers successfully met the new capital requirement deadline.

The Collapsed Banks

The Bank of Ghana revoked the licenses of seven banks namely: The Beige Bank, Premium Bank, The Royal Bank, The Sovereign Bank, Heritage Bank, Construction Bank and Unibank. These banks were merged to form The Consolidated Bank Ghana, a BoG created institution, to manage the failed banks. Unibank's license was revoked in 2017 after its capital adequacy ratio fell below the 10% minimum rate. The Beige and Construction Bank were said to have acquired their license based on falsified information and also happened to be insolvent. The Royal Bank was found to be immensely undercapitalized as measures to return them back to solvency proved

futile. Capital Bank was tagged as insolvent as its liabilities overshadowed its assets. The bank also had huge sums of uncollectible debts leading to its collapse.

In the period following the clean-up, the burden of blame has constantly been tossed on the back of Ghana's central bank (The Bank of Ghana) and the manner of corporate governance that was employed by the failed banks. Aside from poor corporate governance and regulation failures, Banahene (2018) also identified a disregard of ethics and values as additional reasons for the sector's failure. These claims have failed to definitively conclude on the actions of managers and shareholders that led to the failure and how the country's banks can be better managed to prevent another systemic failure.

1.2 Motivation and Problem Statement

Ghana, like most African countries, has an underdeveloped financial system. The strength and robustness of Ghana's banking industry cannot be compared to that of developed nations. This reality was adequately reaffirmed by Atuahene (2016) who noted that "Ghana's banking sector is relatively less efficient and less experienced for asset and liability management" and thus efficient management and control are even more crucial in "establishing a sound banking system" (p.40).

Cultivating a system of trust in the finance industry is a critical component in the development of the financial sector. It has been argued that the crisis faced by the finance industry is one that has negatively impacted public confidence in financial institutions. The subsequent wave of panic withdrawals to hit the country have been said to do more harm than good to the finance sector and the economy as a whole.

According to a report by Graphic Online (2019), rural banks lost millions of cedis from panic withdrawals.

Again, the cost involved in ‘cleaning’ the sector served as motivation for this research. GHS 12.7 billion represents approximately 17% of the planned GHS 74.6 billion expenditure figure. There are endless Ghanaian sectors and problems this amount of money could have greatly improved. I was therefore interested in understanding the actions of managers and shareholders in contributing to the crisis.

According to Atuilik (2018), poor corporate governance is to blame for the banking crisis. Similarly, the Asantehene in 2018, blamed the Bank of Ghana for the crisis per a report by BusinessGhana. These ideas typify the debate surrounding the crisis. Individuals across the political divide have blamed various factors for the crisis faced by the banking sector. Two major stakeholders have been recurrent in the narrative that has echoed diverse views on who should be held liable. The industry regulator, that is, the Bank of Ghana, and the nature of corporate governance employed in the failed institutions. Various studies have delved in to analyze the faults of each party on a surface level. These analyses are usually a result of the political alignment of the analyst.

More often than not, these claims tend to be bare opinions with little to no research done. The claims also fail to reveal the actions that constituted corporate governance malpractices and their role in the crisis.

1.3 Research Questions

1. How was Ghana's 2018 banking crisis a consequence of corporate governance malpractices and what direct actions by managers and shareholders can be linked to the collapse of their institutions?
2. Under which areas of the IFC's corporate governance framework can the actions and inactions of managers and shareholders, leading to the collapse of their banks, be categorized and evaluated?

1.4 Research Objectives

The overarching objective of this study is to investigate the role of poor corporate governance structures in the banks' failures.

The specific objectives of this study are posted below:

- I. To identify the actions of managers which contributed to the bank failures
- II. To identify the actions of shareholders which contributed to the bank failures
- III. To categorize and evaluate the actions of managers and board members leading to the bank failures within the IFC corporate governance framework.

1.5 Relevance of Topic

It cost the Ghanaian government approximately GHS12.7 billion to clean the country's financial sector (Ministry of Finance, 2019). This clean-up has momentarily impacted many activities in Ghana's financial space adversely. Investor confidence in financial institutions has waned, causing a wave of panic withdrawals across the country. As a result, a growing number of these institutions are facing a liquidity crisis. It is therefore important to identify the factors that caused this crisis in order to prevent a reoccurrence.

The findings of the study will be relevant to both the BoG and Ghanaian bank managers and shareholders as it will expose some of their actions and how these led to the industry's crisis. Additionally, policy makers will be more informed with this research, and can make policies that will prevent such an occurrence in the future. The findings of the study will also be relevant to depositors as they will be more informed about the manner in which banks operate.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter will see the discussion of both theoretical and empirical scholarly texts focusing on corporate governance, its definition and evolution over the years, banking crisis' and their linkage to corporate governance. Corporate governance practices in Ghana will also be discussed. The various corporate governance models, namely the agency, resource dependency, stakeholder and shareholder theories will be summarized as well to better understand the global discourse and differing perspectives of corporate governance. Additionally, similar studies investigating the collapse of different countries' industries and parallels in banking crisis' will be reviewed.

2.2 Theoretical Literature

Existing literature regarding corporate governance theory will be reviewed in this chapter.

2.2.1 Corporate Governance

“The purpose of corporate governance is to help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies” (OECD, 2015). In most enterprises, the separation of ownership and management brings about the potential for a conflict of interest. According to Shah (2014, p. 1), the “principal-agent problem arises when this relationship involves both misaligned incentives and information asymmetry”. In the banking industry for instance, the various principal-agent relationships between shareholders and management, as well as the “complex instruments provide a fertile breeding ground for conflicts” (Shah, 2014, p. 1).

The International Finance Corporation defines corporate governance as the “structures and processes by which companies are controlled”. Good corporate governance is said to enable organizations run more efficiently by “improving access to capital, mitigating risk and safeguarding against mismanagement. It makes companies more accountable and transparent to investors and gives them the tools to respond to stakeholder concerns” (IFC, 2020).

The 2008 global financial crisis is an event in recent times that epitomizes the importance of efficient corporate governance practices. The crisis highlighted many of the principal-agent problems pertinent to the banking industry and emphasized the role of adequate corporate governance practices. In the build-up to the crisis, bank employees were faced with a conflict of interest between “the incentives created by their compensation contracts and their duty to the shareholders of their companies” (Shah, 2014, p. 22).

Oghojafora, Olayemi, Okonji, and Okolie (2010) similarly established that an important characteristic of corporations is the division of ownership and management. In this regard, the owners or shareholders entrust decision making powers to managers. Accordingly, this separation results in shareholders losing their unlimited control over the decisions of managers. Corporate governance is therefore an endeavor to merge the interests of managers and shareholders by monitoring managers to ensure decision making powers are not exploited. (Oghojafora et al., 2010).

Johnson, Boone, Breach and Friedman (2000) defined corporate governance as the efficiency of structures that reduce the agency conflicts concerning managers while focusing keenly on defending the rights of minority shareholders. Brigham and Erhardt (2005) in their study, defined corporate governance as regulations employed

to ensure organizational success. The OECD on the one hand, describes corporate governance as the “set of relationships between a company’s management, its board its shareholders and other stakeholders. Corporate governance is also said to provide the structure through which objectives of the company are set and the means of attaining those objectives.” (OECD, 2015).

The Committee on the Financial Aspects of Corporate Governance (1992) coined one of the most simple and popular definitions of corporate governance: “the system by which companies are directed and controlled” (para. 2.5). This definition incorporates all the systems and process employed by managers in achieving their objectives. The report goes on to define the roles of some influential stakeholders. “Shareholders are expected to appoint the directors and the auditors. Boards of directors are accountable for their company’s governance and must therefore engage in defining the company’s key objectives, monitor the performance of management and subsequently account to shareholders on their supervision”.

In a more recent and lengthy description, Khan (2011, p.1) referred to corporate governance as “a broad term describing the process, customs, policies, laws and institutions that direct organizations in the way they act and control their operations”. Tirole (2001) established parallels between economists and legal scholars and arrived at her definition of corporate governance as simply being “the defense of shareholders’ interests” (p.1).

Atuahene (2016, p.36) considers corporate governance to be about “effective, transparent and accountable governance, that holds individuals accountable, encourages stakeholder participation and facilitates the flow of information”. This view of corporate governance slightly differs from much earlier views that focused more on the process of controlling and direction of entities.

“Good corporate governance requires high standards of accounting and financial and non-financial disclosure” (UNCTAD, 2010, p.73). For banks, effective internal governance is extremely crucial as their stakeholders vary widely. By way of their primary function which leverages financial risk to generate revenue, weak corporate governance can expeditiously lead to avoidable vulnerability and a destructive image among depositors and the general public.

2.2.2 Agency Theory

According to Jensen and Meckling (1976), the agency relationship is identified as one where persons (the principal) appoint another (known as the agent), to act in the capacity of the principals or perform a set of activities on their behalf. This arrangement requires the principals to give some decision-making power to the agents. The authors further argue that if both parties in the agreement are “utility maximizers then there is good reason to believe that the agent will not always act in the best interests of the principal” (p. 308). This idea is the cornerstone of the agency theory which proposes that principals must adopt strategies that keep their agents in check, so agents are prevented from pursuing activities that do not fall in line with the interests of their principal.

Unfortunately, the implementation of these strategies is said to come at a cost for both principals and agents. Agency costs comprise “the principal’s monitoring expenditure, bonding expenditures of the agent and residual losses” (p. 308). Over the years, considerable focus has been placed on earnings retention costs, time-horizon costs, moral hazard and risk aversion costs all of which have been classified as the most precarious agency costs (Mccolgan, 2001). Good corporate governance has the potential to mitigate agency costs according to Vargas-Hernández and Cruz (2018). The relationship between managers and stockholders of banks is a quintessential

principal agency theory and thus this theory is relevant to this study on corporate governance. The agency theory is regarded as the earliest governance theory from which all others were derived.

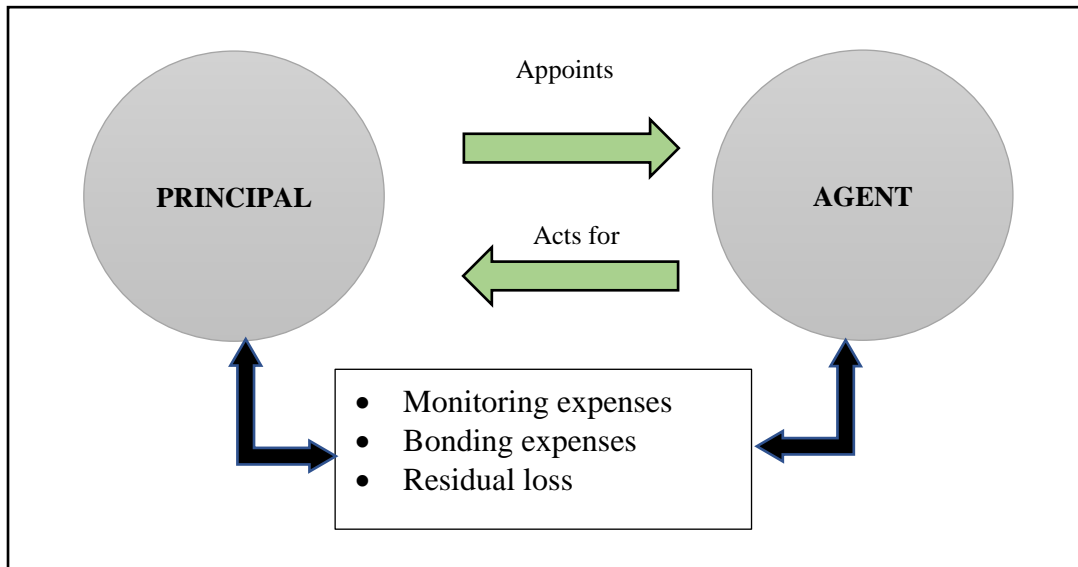


Figure 1 illustrating the agency theory

The stewardship theory of corporate governance assumes that a steward (manager) will maximize shareholder value by attaining superior firm performance. This theory contrasts agency theory by viewing managers as individuals willing to offer their best to the organization. Donaldson and Davis (1991) noted that with the stewardship theory, “managers want to do a good job” (p. 51). And that variations in managerial performance are as a result of the manager’s “structural situation” (p.51), and whether or not this structure promotes better organizational performance. Smallman (2004) in relation to the stewardship theory also found that when “shareholder wealth is maximized, so too are stewards’ utilities” (p. 87).

Stewards understand that by attaining the firm’s targets, their personal needs will be met (Smallman 2004). Furthermore, it is suggested that stewards are given a large degree of autonomy and in the case where they must be controlled, they should

be encouraged as “control resources are better used in encouraging good stewards, rather than lowering their motivation through constraining their activities” (p.88).

The stewardship theory essentially presumes that managerial activity is motivated by the desire to achieve and the inherent fulfillment derived from success (L’Huillier, 2014). Under this theory, corporate governance focuses on creating organizational structures that inspire and encourage managers.

2.2.4 Stakeholder Theory

The stakeholder theory of corporate governance is a fusion of “business ethics, behavioral science, economic theory and the stakeholder concept” (Smallman, 2004, p.84). By incorporating the various stakeholders and interest groups organizations deal with, the theory is said to take into consideration the extra layer of complexity associated with the real world and unaccounted for in the agency theory (Smallman, 2004). Per this theory, rather than focusing solely on the maximization of shareholder wealth, organizations have a duty to safeguard the interests of their diverse stakeholders, consisting of their employees, suppliers, customers, the government and many others. For example, as creditors supply loans to the organization, they expect to be paid back in full and on time. Local communities expect an improvement in their standard of living, employees expect to be compensated adequately for their commitment to the firm (Ntim, 2017).

This theory suggests that the problem of governance stems from the lack of representation of the broader group of shareholders in controlling the organization. To manage this problem, organizations employ a dual board structure by utilizing a supervisory board and a management board. The supervisory board comprises a variety of stakeholders (Mallin, 2007). This model of governance is found in continental European countries such as Germany, France and Italy.

2.2.5 Resource Dependency Theory

The main premise of the resource dependency theory is that firms need resources to operate, and the pursuit of these external resources influence the internal structures of firms. L'Huillier (2014) found that in the resource dependency theory, corporate governance is seen as a function of “the organization’s structure in relation to other such structures and the position of these in the wider society” (p. 309). Hung (1998, p.104) furthered this view by stating that “corporations depend upon one another for access to valuable resources and therefore seek to establish links in an attempt to regulate their interdependence”.

Resources are unevenly distributed, and this increases the need for firms to depend on each other. Directors are tasked with managing external relationship to help link the firm to the resources it requires for its operations. This theory implies that the role of the board goes beyond controlling managers, but rather, the board in itself is a resource that can facilitate acquiring resources. Pfeffer (1972) argues that board size and composition are not random but are rather intentional and strategic reactions to a firm’s exterior influences. According to Pfeffer (1972, p.222), “organizations that have larger capital requirements will be more likely to have a greater percentage of their board of directors composed of representatives from financial institutions”, propagating the idea that a firm’s dependence on external resources, influences its internal structure.

2.2.6 OECD Governance Principles

The Organization of Economic Co-operation and Development (OECD) initially published the first batch of corporate governance principles in 1999. These principles have since been revised and updated.

“The G20/OECD Principles of Corporate Governance allow policy makers to assess and enhance their legal, regulatory and institutional framework for corporate governance, while supporting efficiency, sustainable growth and financial stability.” (Organisation for Economic Co-operation and Development, 2015, p. 3). These principles have become an international guide for corporations and institutional stakeholders around the world. The principles have also been endorsed and incorporated in the Financial Stability Board’s Key Standards for Sound Financial Systems and constitute the criteria for the World Bank’s Report on the Observance of Standards and Codes (ROSC) in corporate governance.

The six principles are: “ensuring the basis for an effective corporate governance framework, the rights and equitable treatment of shareholders and key ownership functions, institutional investors, stock markets, and other intermediaries, the role of stakeholders in corporate governance, disclosure and transparency, the responsibilities of the board” (OECD, 2015).

2.2.7 IFC Corporate Governance Framework

IFCs corporate governance methodology serves as a framework that helps assess and strengthen the entire corporate governance system of a company. New updates to the framework have seen revisions to corporate governance considerations in light of the 2008 financial crisis. Six areas of governance have been included in the assessment of corporate governance:

“Commitment to Environmental, Social, and Governance (Leadership and Culture): The company and its shareholders have demonstrated a commitment to implementing high-quality corporate governance, including the governance of key environmental and social policies and procedures. The structure and functioning of the board of directors: The board of directors is qualified and adequately structured to

oversee the strategy, management, and performance of the company. The control environment: The company's internal control system, internal audit function, risk management system (including an environmental and social management system), and compliance function are sufficient to ensure sound stewardship of the company's assets, effectiveness of operations, accuracy in reporting, and compliance with policies, procedures, laws, and regulations. Disclosure and Transparency: The company's financial and nonfinancial disclosures are a relevant, faithful, and timely representation of material events to shareholders and other stakeholders. Treatment of minority shareholders: The company's minority shareholders' rights are not inadequate or abused, and other stakeholders are treated equitably. Governance of stakeholder engagement: The company's governance of stakeholder engagement is inadequate, particularly oversight over stakeholder mapping, stakeholder engagement policy and grievance mechanisms." (International Finance Corporation, 2018).

The IFC Corporate Governance methodology utilizes a number of tools, matrices, checklists and other instruments to analyze and improve the corporate governance practices of companies. They are:

The Instruction Sheet, Why Corporate Governance, Progression Matrix, Document and Information Request, IFC Indicative Independent Director Definition and Sample CG Improvement Programs.

In assessing the corporate governance of banks and other financial institutions, the IFC recommends using the Advanced Financial Methodology for Financial Institutions. The Progression Matrix serves as the primary and most relevant tool in establishing the company's "current governance framework and in identifying how well the company is performing in each of the six areas of governance" (IFC, 2020).

Figures 2 and 3 below illustrate the IFCs areas of corporate governance and the practices that constitute each defined corporate governance level.

CG Attributes	LEVEL 1 Basic CG Practices	LEVEL 2 Improvements towards good CG	LEVEL 3 Advanced CG practices	LEVEL 4 Best CG practices
A. Commitment to Corporate Governance	<ul style="list-style-type: none"> The company has a charter or articles of incorporation, with provisions on: <ul style="list-style-type: none"> the protection of shareholder rights and the equitable treatment of shareholders, the distribution of authority between the Annual General Meeting of Shareholders, the Board of Directors and executive bodies; and information disclosure and transparency of the company's activities. 	<ul style="list-style-type: none"> The company has a written code of ethics approved by the Board of Directors. The company has a designated officer responsible for ensuring compliance with the company's corporate governance policies and also has a compliance officer responsible for ensuring compliance with its code of ethics. Management/Board of Directors approves annual calendar of corporate events (Board meetings, General Shareholders' Meeting, etc.). 	<ul style="list-style-type: none"> The company has a written corporate governance code. The company periodically discloses to shareholders its corporate governance code and practices and the extent to which such practices conform to the country's voluntary code of best practices, if applicable. 	<ul style="list-style-type: none"> Applicable corporate governance, accounting, external and internal auditing, internal controls, and shareholder information practices are equivalent to those in place at best practice public companies (i.e., little would need to be done to qualify to make a public offering). The company fully complies or explains any deviations from all applicable provisions of the voluntary code of best practices of the country (some elements of which may be applicable only to public companies).
B. Structure and Functioning of the Board of Directors	<ul style="list-style-type: none"> The Board of Directors is constituted, meets periodically and deliberates independently of executive management. Board members are given sufficient information and time to prepare for Board meetings. Board members exercise their duties of management oversight and developing the company's direction and strategy. 	<ul style="list-style-type: none"> The Board includes members who are neither executives of the company and its affiliates, nor controlling shareholders. Board meetings are held according to a regular schedule (at least 4 times a year), the agenda is prepared in advance, and minutes are recorded and approved. Board composition (competencies / skill mix) is adequate for its strategy and oversight duties. 	<ul style="list-style-type: none"> The Board of Directors has an Audit Committee - chaired by an independent Director; - composed of a majority of independent Directors; - includes at least one financial expert; and - all members should be at least financially literate. The Board of Directors and executive management receive induction and regular training. The Board of Directors is elected on a regular basis. 	<ul style="list-style-type: none"> The Board of Directors is composed of a majority of independent Directors. The audit committee is composed <i>entirely</i> of independent Directors. The Board has a Nominating Committee. The Board has a Compensation Committee. The Board of Directors is elected annually. The performance of the Board as well as each individual director is reviewed annually. The company has an established succession plan for the CEO.
C. Control Environment and Processes	<ul style="list-style-type: none"> An adequate internal control system is in place, documented and periodically reviewed by an independent internal audit function. 	<ul style="list-style-type: none"> The internal control system is in accordance with the highest national standards. The internal audit function is established and is in accordance with the highest national standards. The Board of Directors approves and regularly monitors the company's risk management and compliance policies and procedures. 	<ul style="list-style-type: none"> The company has a comprehensive compliance program that is annually reviewed. The internal audit function is independent and overseen and reports directly to the Audit Committee. 	<ul style="list-style-type: none"> The internal controls system and the internal audit function are risk-based and in accordance with <i>highest international standards</i>.

Figure 2 illustrating the progression matrix for the IFC areas of governance. Source: IFC, 2018

<p>D. Transparency and Disclosure</p>	<ul style="list-style-type: none"> Financial statements are prepared in accordance with the highest national accounting standards, and audited by a recognized independent external auditing firm. The company complies with all disclosure requirements under applicable law, regulations and listing rules (fair disclosure). Shareholders are provided with information and documentation upon their request and as specified by applicable law. 	<ul style="list-style-type: none"> The company prepares and presents all financial statements and reporting in accordance with a widely accepted, internationally recognized system of accounting (IFRS or U.S. GAAP). The company's financial statements are audited in accordance with <i>International Standards on Auditing</i>. The company discloses information on: <ul style="list-style-type: none"> affiliated parties and the affiliation of members of the Board of Directors; and In meetings of the Board of Directors and Annual General Meeting of Shareholders. All disclosure to and communications with shareholders (e.g., materials for the shareholders' meetings, minutes of the most recent meetings etc.) are made available on the internet in a timely fashion. 	<ul style="list-style-type: none"> The company discloses information on the remuneration of the members of the Board of Directors and senior management. The company publishes a comprehensive annual report that includes a corporate governance section. The company rotates its external auditors or at least rotates its audit engagement partner. The company discloses its beneficial owners. 	<ul style="list-style-type: none"> Financial and non-financial disclosure practices are in accordance with <i>highest international standards</i>.
<p>E. Rights of Minority Shareholders</p>	<ul style="list-style-type: none"> Minority shareholders are provided with adequate notice and an agenda of the shareholders' meetings; and are permitted to participate and vote at such shareholders' meetings. All shareholders' meetings are convened at an easily accessible location. All shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights. Shareholders are provided with accurate and timely information regarding the number of shares of all classes held by controlling shareholders and their affiliates (ownership concentration). 	<ul style="list-style-type: none"> Shareholders have the opportunity to propose items to the agenda and to ask questions at the shareholders' meetings. Effective representation of minority shareholders is provided by cumulative voting or similar mechanisms. The company has a well understood policy and practice of full and timely disclosure to shareholders of all material transactions with affiliates of the controlling shareholders, directors or management (conflicts of interest). The company has a dividend policy which is disclosed to shareholders. 	<ul style="list-style-type: none"> The company has effective shareholder voting mechanisms in place to protect minority shareholders against unfairly prejudiced actions of controlling shareholders where ownership is especially concentrated or controlling shareholders have strong conflicts of interest (e.g., super-majority or "majority of minority" provisions). The company has clearly articulated and enforceable policies with respect to the treatment of minority shareholders in changes of control situations (tag-along rights). The annual report clearly discloses the principal risks to minority shareholders associated with the identity of the company's controlling shareholders; the degree of ownership concentration; cross-holdings among company affiliates; and any imbalances between the controlling shareholders' voting power and overall equity position in the company. The company pays dividends shortly after a decision to declare dividends is made. 	<ul style="list-style-type: none"> Shareholders have the opportunity to use electronic means of communication (including the internet) for voting. The company has a system of registering shareholders complaints and effectively regulating corporate disputes. The company's history of equitable treatment of shareholders demonstrates consistent conformance with international market expectations. The company has a well understood policy and practice of full and timely disclosure to shareholders of all material shareholder agreements.

Figure 3 a continuation of the matrix from the previous page. Source: IFC, 2018

2.3 Empirical Literature

2.3.1 Corporate Governance and Firm Performance

With evidence from Indonesia, Thailand, Philippines and Malaysia; Praptiningsih (2009) conducted research to measure the relationship between the corporate performance of banks and their corporate governance monitoring mechanisms. The study incorporated data sets from 2003 to 2007 and analyzed 22 banks in Indonesia, 12 in Thailand, 13 in the Philippines and 5 banks in Malaysia. The paper concluded by stating that good corporate governance monitoring mechanisms are important in achieving shareholder's objectives.

Bokpin (2013) found that governance in terms of a larger board size, highly improves the bank's profit efficiency at the detriment of the bank's cost efficiency. Bokpin also found that "the capital adequacy ratio and bank size are both significant predictors of bank efficiency in Ghana" (2013). In his study, Bokpin utilized accounting data and measures of efficiency between 1999 and 2007.

Nsiah (2019) explored the role of corporate governance on the performance of local Ghanaian banks. The study examined 18 out of the 23 deposit taking banks at the time, representing 78% of all banks. A panel analysis method was used. Bank performance was "quantified by the Return on Assets" (Nsiah, 2019), bank debt structure and the percentage of fixed assets to total assets. The level of corporate governance on the other hand, was measured with variables such as board size, board composition (executive to non-executive directors), division of CEO (differentiation between CEO and board chairman), gender diversity of board and the possession structure of the bank. The study found that the relationship between board size and bank performance is an inverted U-shaped one with a threshold value of 9. Meaning that, bank performance has a positive relationship with board size up until a board has

9 members, beyond that, it has a negative impact on performance. Additionally, per the study, an increase in the number of women on the board, insignificantly improved performance.

Tornyeva and Wereko (2012) analyzed the Ghanaian insurance sector in their study. In order to identify the relationship between corporate governance and firm performance, secondary data was obtained from Ghana's Insurance Commission whilst primary data was collected by way of interviews and questionnaires. The research revealed that a "large board size, board skill, management skill, longer serving CEOs, size of audit committee, audit committee independence, foreign ownership, institutional ownership, dividend policy and annual general meeting" (Tornyeva and Wereko, 2012) were all positive influences on the financial performance of insurance companies in Ghana.

Considering the limited publications regarding corporate governance and financial companies in Ghana, this paper brought some clarity to the intricacies of the Ghanaian financial sector and the increased need for adequate corporate governance practices. Although the findings of their research may be somewhat applicable in this paper considering these are both financial institutions in Ghana, the Banking and Insurance sectors are undeniably different in both their operational models and the manner in which they are regulated. The 2018 banking crisis also presented new frontiers of financial information for Ghana.

2.3.2 Corporate Governance Practices in Ghana

Corporate governance practices of Ghanaian institutions have been characterized by a lack of transparency owing to the insufficient literature regarding the topic. Adegbite (2012) gives some insight by contributing to the body of

knowledge. In his study, Adegbite focused on board responsibility, board structure and composition, shareholder's rights, transparency, disclosure and the audit committee. His study found that "Ghanaian listed banks do comply fully and partially with the 2002 SEC code of best practices" (Adegbite, 2012, p.73). Corruption was recognized as the key obstruction to proper governance practices. Adegbite also advised that regulatory bodies such as the SEC and the GSE be empowered to better regulate governance practices. His study largely focused on Ghana's investment attractiveness to international investors and thus referred to corruption as a Ghanaian "socio-cultural problem".

Adegbite however, failed to list the specific and direct actions that constituted corruption in governance in the manner I seek to in this paper. Additionally, Ghana's banking system has evolved since the time of his research owing to new regulatory legislation such as the Banks and Specialised Deposit-Taking Institutions Act, 2016. Amendments to the Industry Financial Reporting Standards (IFRS) and the adoption of the Basel II and Basel III frameworks have all reformed the country's banking industry.

Agyemang and Castellini (2015) reviewed corporate governance practices of emerging economies, by focusing on Ghana. It was observed that in Ghana, there was little to no separation between ownership and management of most institutions. Controlling shareholders were found to have a large degree of influence in managing the affairs of their institutions. This was ascribed to the weak enforcement of corporate governance rules by regulators. Shareholders as a result, are compelled to actively safeguard their investments. The report of Agyemang and Castellini (2015) is in accordance with the findings of Atuahene (2016) who noted that Ghanaian bank boards have "less independence due to dominance of government and family-

appointed directors who set the addendum of the board meeting to implement their own agenda” (p.41).

Prior to Agyemang and Castellini (2015), Berglof and Claessens (2004, p.3) adopted a similar view which proposed that in developing economies with weak contracting instruments and environments, “the typical corporate governance response is high concentration” which may lead to limited risk diversification and poor performance. The World Bank ROSC (2010) reported that despite the Bank of Ghana’s efforts to improve corporate governance practices in Ghana, it “had not “released explicit governance regulations for banks and other financial institutions” (p.2).

Ahorlu (2019) “examined the web-based disclosure practices among listed banks in Ghana (Ahorlu, 2019). A content analysis was employed to analyze the websites of the selected banks for the level of governance disclosures published. Per the study, banks listed in Ghana generally have low levels of governance disclosure as they do not “report information pertaining to organizational strategy, stakeholder engagement, governance process, ethical values and integrity” (Ahorlu, 2019). In contrast, an earlier World Bank ROSC (2010) report found that Ghana, “when compared with other countries in Sub-Saharan Africa, does well with transparency and disclosure but lags in responsibilities of the board” (p.3).

The World Bank ROSC (2010) report when analyzed against that of Ahorlu (2019), implies that Ghana’s governance disclosures may have worsened over time. The low level of governance reportage by Ghanaian banks is relevant to my research as disclosure and transparency practices happen to be one of the key areas in the IFC corporate governance methodology to be used in this study.

2.3.3 Corporate Governance and Non-Performing Loans

High NPLs have long been viewed as a determinant of banking crisis' (Kroszner, 2002). This situation has been no different in Ghana with non-performing loans reaching record highs ahead of the banking crisis.

Tekathon and Dechow (2013) established that efficient credit risk practices are important to the success and operations of financial institutions. As observed in Ghana's 2018 banking crisis, the high percentage of non-performing loans resulted in the closure of a number of commercial banks operating in the country and consequently affected the country's financial sector.

According to Amuakwa-Mensah and Boakye-Adjei (p.39, 2015), Sub-Saharan Africa's debt aggregation has been linked to "terms of trade deterioration and interbank loans which are present in the context of low equity and absence of diversification". The absence of diversification theory is consistent with earlier studies such as that of Berglof and Claessens (2004).

The relationship between governance practices and bad asset quality is one that has been of interest for years. Berger and DeYoung (1997) in a bid to link 'bad management' to non-performing loans, employed granger-casualty techniques in testing their hypotheses. Their results confirmed that "bad management practices are manifested not only in excess expenditures, but also in subpar underwriting and monitoring practices that eventually lead to non-performing loans" (Berger and DeYoung, 1997, p.13).

In a more recent study, Karim, Chan and Hassan (2010) who investigated the association between NPLs and bank efficiency, again observed that "banks' inefficiencies may lead to higher non-performing loans" (Karim, Chan and Hassan,

p.123, 2010). Additionally, Bokpin (2015) established that the corporate governance and structure of banks are strong determinants of their attitudes to credit risk.

With the high percentage of NPLs being reported as one of the major causes of Ghana's bank failures, these studies reveal the link between poor corporate governance and non-performing loans. Considering the large stock of NPLs and the role these played in Ghana's banking crisis, evaluating the relationship between bank asset quality and corporate governance was necessary.

The role of corporate governance was further assessed by Eric Tetteh (2019) as he analyzed the impact of corporate governance on asset quality in the Ghanaian banking sector. The study investigated 32 banks that operated in Ghana from 2006 to 2016. Findings from the study revealed that non-executive board member ratio has a "significant inverse relationship on NPLs". Also, it was established that board gender has "a significant and a direct relationship with NPLs" (Tetteh, 2019).

In their paper 'Corporate governance in Ghana: An analysis of board accountability in Ghanaian listed banks', Amartey, Yu and Chukwu-Iobelu (2019) asserted that Ghanaian banks were ineffectively using their board accountability mechanisms which composed of internal and external audits and audit committees. They suggested frequently changing independent auditors and submitting to a mandatory national corporate governance charter as ways to improve governance practices. The study added to African governance literature by disclosing insight from board.

2.3.4 Corporate Governance and Banking Failures

Benson (2019) investigated the factors that led to the collapse of Unibank Ghana. The study collected qualitative data in the form of interviews from the bank's former staff, as well as quantitative data from the bank's annual reports. Benson's

target population consisted of all former Accra based staff of the bank. The study randomly selected 5 former staff occupying the following positions: branch manager, credit officer, operations manager, SME relationship manager, and a corporate SME manager. The research attributed UniBank's collapse to factors such as high interest rates leading to high non-performing loans. "ambitious expansion, business promotion for fixed deposit mobilization, and above all, misreporting of the financial state of the bank" (Nsiah, 2019). The bank's related political party transactions were also listed as a reason for its collapse. Nsiah's research focused only on Unibank and identified the factors leading to its collapse. This paper will however focus on all the collapsed banks in an attempt to identify the direct actions of managers and shareholders.

According to the 2010 United Nation Conference on Trade and Development, "substandard corporate governance practices" resulting from "the risk management standards prevailing in many large institutions" were among the leading causes of the global financial crisis in 2008. Insight from the conference further identified certain aspects of corporate governance that could be improved upon in financial institutions around the world. These included; "strengthening board oversight, positioning risk management as a key board responsibility and encouraging remuneration practices that balance risk and long-term performance criteria." (UNCTAD, 2010). "The link between corporate governance and a broader range of stakeholders has never been clearer."

2.3.5 Ghanaian Banking Codes

An overview of some regulatory documents that guide banking in Ghana are reviewed below.

Corporate Governance Directive

The 2018 banking crisis provoked the bank of Ghana to publish a corporate governance directive which outlined actions that directors and managers of banks must engage in to promote good corporate governance in their organisations. Per the directive, banks are required to separate the roles of the board chairman and the chief executive officer, with the act preventing any person from occupying both roles concurrently (Corporate Governance Directive, 2018, p. 13). Related persons are also prohibited from assuming these positions in the same financial institution (p.13). Prior to this directive, The World Bank's (2010) ROSC report found that corporate governance standards for Ghanaian banks were "largely unwritten" (p.10). Despite the relevance of the directive to Banking in Ghana, using it as a framework for this study will be counteractive as it was produced as a result of these same errs.

2016 Banks and Specialized Deposit-Taking Act 930

This act serves as one of the core legislations that guide the operations of banks in the Ghanaian banking industry. The act gives the central bank the veto power on proposed director appointments, the issuances and revocations of banking licenses as well as the power to administer penalties in the event of a breach in regulations. The bank is also responsible for setting the minimum capital requirement, which it revised in 2017.

2.3.6 The Changing Face of Corporate Governance Practices

Weak and inept corporate governance practices have been blamed for the 2008 financial crisis. Fernández Sánchez, Odriozolla Zamanillio and Luna (2020) empirically investigated how the crisis has redefined corporate governance practices by focusing mainly on the shareholder and stakeholder models of governance.

Between 2002 and 2015, the study sampled 46 commercial banks with the largest asset bases in the world and employed a corporate governance score, assessing their corporate systems and processes. The findings revealed that post 2008, banks implementing the stakeholder model of governance, on average, increased their number of annual board meetings from 9.3 to 12.4 while the average of 12.1 remained unchanged for their shareholder-focused counterparts.

For both categories of governance, the percentage of banks requiring a majority vote for the election of a director increased (87% increase for shareholder governance and 55% for stakeholder governance) after 2008. Improvements were again seen in measures of executive compensation and takeovers signifying an overall improvement in governance effectiveness.

Contemporary studies of corporate governance have emphasized the convergence of the shareholder and stakeholder models. Convergence in corporate governance parlance refers to “the increasing isomorphism of governance practices” (Yoshikawa and Rasheed, 2009, p.389). As seen in Figure 4, there appears to have been some confluence between the two models over the period up until 2012 where the divergence is attributed to the European sovereign debt crisis.

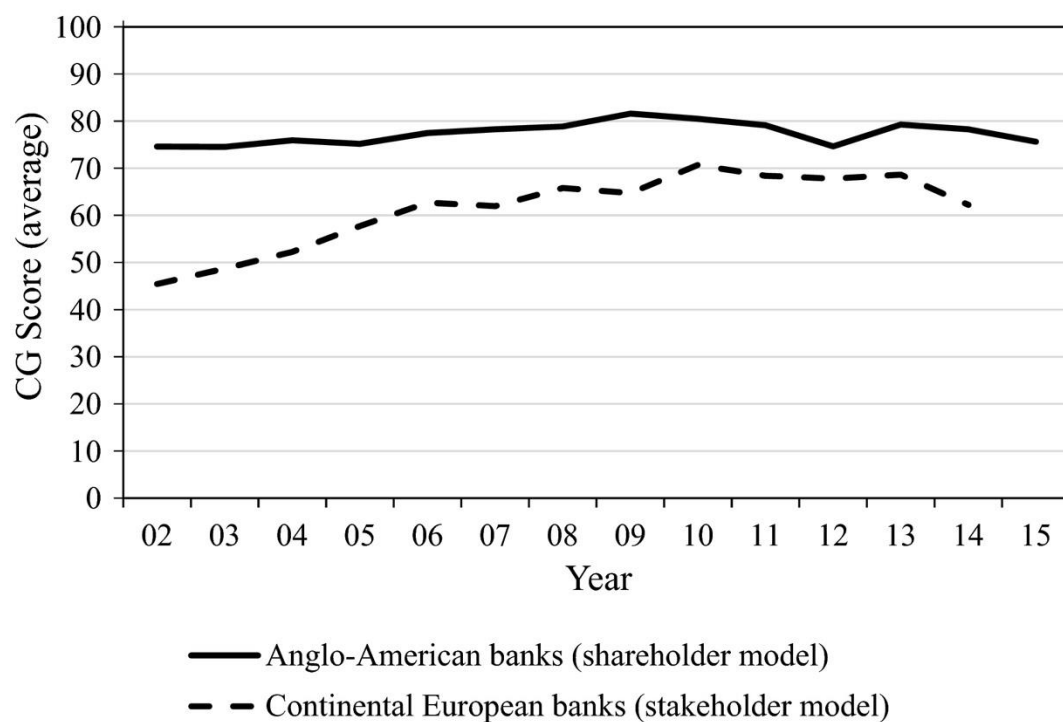


Figure 4. The progression of the CG Score by the corporate governance model, 2002-2015. (Fernández Sánchez et al., 2020)

Fernández Sánchez et al. (2020) attributed the increased convergence mainly to Continental European banks who notably enhanced their corporate governance mechanisms to improve the entire banking system. The findings above exhibit the global shift towards more deliberate and rigid corporate governance practices.

CHAPTER 3: METHODOLOGY

3.1 Overview of the Method Selection

As the study seeks to explore the role of corporate governance and bank regulation in Ghana's 2018 crisis, this chapter will focus on the methodology employed. A content analysis was used as data was gathered from various sources including newspapers, blogposts, written articles and interviews. The data collected was largely qualitative and secondary in nature. The rationale for the methodology selected will be discussed later in this chapter.

3.2 Content Analysis Design

Content analyses are regarded as one of the earliest approaches to analyzing text (Onsomu, 2015). According to Seale (2004), a content analysis refers to any technique of analyzing texts based on the frequency of certain ideas, terms or concepts. "Initially content analysis dealt with 'the objective, systematic and quantitative description of the manifest content of communication' (Berelson, 1952, p. 18) however, it has gradually evolved to comprise analyses of concealed ideas and concepts in texts (Graneheim and Lundman, 2004).

Content analyses are used to discover patterns and recurrent themes in texts which may be written, oral or visual. Researchers further use this method to find out about the intent, themes and impacts of texts (Luo, 2013).

The data, despite being qualitative can be analyzed quantitatively through the use of graphs and charts.

The first step in conducting a content analysis is to select the content to analyze based on the research question. Since my research question centers on the

role of corporate governance in Ghana's banking crisis, I identified texts such as interviews, blogposts, and newspaper publications that discussed the issue.

Content Analysis Process

When conducting a content analysis, a myriad of ideas, concepts and meanings are relevant to the undertaking. Despite contrasting views on what a unit of analysis is, for the purposes of this paper, it is defined as either a subject or whole text forming the center of analysis of the study (Graneheim and Lundman, 2004). A meaning unit can be defined as any particular theme expressed or relayed by a group of words or phrases in the context of the study (Graneheim and Lundman, 2004). In order to preserve the reliability of data, meaning units should not be too lengthy as this makes analysis difficult, owing to the varied meanings presented.

Data is further reduced in size (condensed) and analyzed to extract themes that are useful in connecting the various categories identified, whilst the condensed meaning units are tagged with codes (Graneheim and Lundman, 2004). In a content analysis, the credibility of the study is concerned with how precisely the generated themes and categories exhaust the ideas in the texts.

3.3 Research Scope

The research scope sets the parameters within which the research is conducted.

3.3.1 Data Sources

Newspapers, which form a major part of this study, are widely regarded as a major source of information dissemination. In order to ensure that the data retrieved is of an acceptable level of validity and authority, only major news websites were included. This includes the following sources; Graphic Online, MyJoyOnline, The Business and Financial Times. Internationally recognized sources such as Bloomberg and Reuters were also scanned for texts relevant to the study. Reports from

PricewaterhouseCoopers and the Bank of Ghana are also included as these are reliable sources of financial information in Ghana.

3.4 Sampling Strategy

A total of 186 newspapers between 2017 and 2019 (representing the study's sampling frame) were scanned for texts related to Ghana's banking crisis. Out of this number, 63 were publications of the BFT representing approximately 34% while the remaining 66% (123 publications) were texts from *The Daily Graphic*. A breakdown of the newspapers is presented in Table 1 below. A purposive sampling method was used in identifying texts within the sampling frame that had content on Ghana's banking crisis.

A purposive sampling strategy was used because this technique allows researchers to focus on materials most relevant to the study and consequently acquire a more accurate depiction of the issue at hand (Patton, 2014). A random sample would not have captured fully the information I sought. Sampling methods are designed to increase the accuracy and integrity of the study (Morse, 2016) and for this research, a purposive sampling strategy was the deemed to be ideal.

Table 1 showing the breakdown of newspapers used

	Newspaper Breakdown (number of papers)	
<i>Period</i>	BFT	Daily Graphic
2016 - 2018	24	68
2019	39	55
Sum	63	123
Grand Total	186	

3.5 Research Design

A total number of 58 newspapers were found to have texts discussing the 2018 banking crisis. These, as previously stated, were publications by The Daily Graphic and The Business and Financial Times between 1st January 2017 and 31st December 2018. The 58 papers represent approximately 31% of the entire sampling frame.

The general public's perception of the 2018 Banking Crisis is bound to be shaped by the media's choice of portrayal.

I decided to choose the newspaper with the highest readership and another focusing solely on issues pertaining to finance. According to GeoPoll's 2017 survey, the Daily Graphic is the most read daily newspaper in Ghana, with 1.5 million readers a day (GeoPoll, 2018). The Business and Financial Times although not as popular (148,000 readers), is regarded as the country's authoritative source of Financial news. The paper is said to be "Ghana's biggest business newspaper with a varied readership base across the 16 administrative regions of the country" (Business & Financial Times, 2020) and hence the reason for its inclusion in my research.

The texts were analyzed for insights regarding the roles of shareholders and managers in Ghana's banking crisis. The units of meaning were then extracted and recorded. These units then informed categories and themes for the study.

3.5.1 Categories and Themes

A total of nine categories and two themes were derived from the data. The categories and themes derived are presented in Table 2 below. The categories were

recorded based on how suitable they were to the study. The point of saturation was attained when new categories could no longer be derived from the data.

Table 2 showing the categories and themes identified in the data

Categories	Themes
Improper shareholder lending	Corporate governance actions
Poor credit assessment	
Non-compliance with banking credit regulation	
Excessive shareholder control	
Misreporting finances	
Fraudulent license acquisition	
Fund misappropriation	
Improper board practices	
Central bank laxity	Poor BoG regulation

3.6 Ethical Considerations

The ethical considerations are an important part of any research work. Human beings and their property are to be engaged, it is important that the right procedures are followed and respected. Since the articles of individuals was utilized, the information presented was represented as accurately as possible with extra attention being paid so as to not misconstrue any statements made. Additionally, as data was retrieved from a variety of sources, the copyright policies regarding the pieces of information were respected and any procedures were duly followed. This was done to avoid any lawsuits or copyright infringements.

3.7 Limitations

Content Analysis' often tend to be reductive in nature. The entire meaning of texts may be reduced to aspects that may be of interest to the research. For this study particularly, the use of a content analysis to categorize the major themes into actions of the regulator and corporate governance failures led to insights not falling into either category being sidelined. Furthermore, Content Analysis' are extremely time consuming. Sorting the data into subcategories with thematic linkages was extremely overwhelming.

CHAPTER 4: ANALYSIS AND INTEPRETATION

4.1 Introduction

This chapter analyzes and discusses the data gathered. The data gathered was used in providing answers to the research questions and the objectives set out in preceding chapters. Answers were provided by expanding on the themes and categories that emerged from the data as well as by using the IFC's corporate governance framework as a model for analysing the practices of owners and managers in the failed institutions.

The research questions:

1. How was Ghana's 2018 banking crisis a consequence of corporate governance malpractices and what direct actions by managers and shareholders can be linked to the collapse of their institutions?
2. Under which areas of the IFC's corporate governance framework can the actions and inactions of managers and owners, leading to the collapse of their banks, be categorized and evaluated?

The objectives of the research were to:

- i. To identify the actions of managers which contributed to the bank failures
- ii. To identify the actions of shareholders which contributed to the bank failures
- iii. To categorize and evaluate the actions of managers and board members leading to the bank failures within the IFC corporate governance framework.

4.1.1 Typical Management Structure

A diagram representing the typical management structure is presented in figure 5 below. The diagram aims to help clarify the relationships between the various stakeholder groups in an organization.

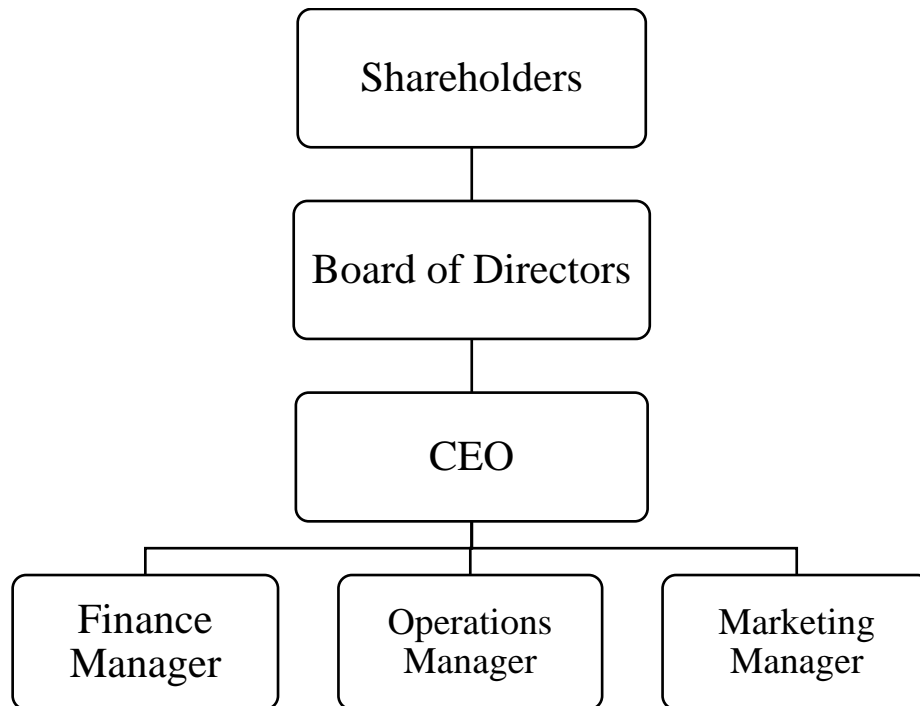


Figure 5 showing the typical organizational structure

As presented in figure 5 above, the shareholders are responsible for electing the board of directors. The board of directors have a duty at all times to protect the interests of the company. They appoint a CEO who, along with other senior managers, run the organization in line with objectives set out.

4.2 Summary Findings from Content Analysis

Figure 6 below summarises the findings from the content analysis. Categories and themes were deduced from the data based on the similarity of ideas presented in the texts. The categories and themes are analysed below.

Meaning Unit	Category	Themes
"BOG approval of non-existent investment to be" converted into a credit facility"	"Central bank laxity in supervisory role"	Poor BOG Regulation
"Politically motivated regulatory environment"		
BOG inadequate guidance on certain "key criteria"		
BOG failure to appoint bank advisors after granting liquidity support		
Late publication on guidance regarding M&As by BOG		
Unpaid loans handed to shareholders and directors by themselves and remaining unpaid	Improper shareholder lending	
"Inter related lending"		
Approval of loans without necessary process	Poor credit assessment practices	
Approval of loans earning no interest income or not backed by collateral		
Lending to very risky borrowers		
"High lending appetite by banks"		
Breach of Single Obligor Limit	Non-compliance with banking credit principles	
"Major shareholder flouted banking and risk management rules" by using depositors funds as personal funds		
Shareholders excessive control of managers	Excessive shareholder control	Poor Corporate Governance
Exaggeration of investments in other entities	Misreporting of finances	
Exaggeration of capital by leveraging fixed assets		
"Overstatement of loans and advances to customers"		
"Under provision of loans"		
Fabricated investment in its accounting records	Fraudulent/Improper license acquisition	
Use of Political connections to secure banking license		
"Re-engineering capital through suspicious placements to local financial institutions		
Use of non-existing investment certificate" to procure banking license	Funds misappropriation	
Use of BOG liquidity support to set up another bank"		
"Approval of bank funds to be used as fixed deposit payments in other company" owned by a shareholder		
"Use of BOG liquidity support to settle "maturing obligations and crystallised international credit lines"		
Infrequent board meetings	Improper board practices	
Non-executive directors disregarding their duty to scrutinize their executive counterparts		
Approval of large executive compensation packages inconsistent with bank's performance		
Shareholders Combining operations of banks' with their companies		

Figure 6 Showing the categories and themes derived from the data

4.3 Research Question 1: How was Ghana's 2018 banking crisis a consequence of corporate governance malpractices and what direct actions by managers and shareholders can be linked to the collapse of their institutions?

The direct actions of managers and shareholders were revealed by the content analysis. This question is therefore answered by expanding on the categories and

themes derived. The extent to which these actions contributed to the crisis are however discussed in their application toward the IFC principles.

4.3.1 Expansion and Discussion of Categories

Central Bank Laxity in supervisory role

A number of meaning units identified described the Bank of Ghana as being nonchalant in the performance of its duties. It was noted that the central bank, in the case of a certain/ Capital bank, approved non-existent investments to be converted into credit facilities. The laxity of the central bank was particularly highlighted considering a report addressing the non-existent investments was published two years before the regulator's approval to convert the investments into a credit facility. A politically motivated regulatory environment was another factor pointed out. A recurring idea in the texts scanned was the fact that the actions of the central bank were strongly influenced by Ghana's political landscape. Thereby undermining the autonomy of the BoG in the performance of its duties.

With the mandate of the BoG being to promote a sound banking system, the regulators seem to have failed in their duties.

Improper Shareholder Lending

Insider lending, defined as lending to shareholders and managers, was found to be one of the main reasons for the abnormally high non-performing loans in the failed institutions. A considerable amount of these loans remained unpaid. In some of the collapsed banks it was reported that non-interest-bearing loans were given to shareholders and these loans were not backed by any collateral. Managers and shareholders failed to payback these loans and consequently ballooned their firms non-performing loans and created a liquidity crisis.

Poor credit assessment practices

Credit assessment can be defined as the due processes entities and individuals must undergo in order to establish their creditworthiness. In the defunct banks, credit assessment practices were lacking. The collapsed banks in a bid to increase their interest income, developed high lending appetites to take advantage of the market's relatively high interest rate. The high lending appetites meant these banks had to loosen their already inadequate credit practices and lend to high risk borrowers in risky sectors of the economy.

It was also found that depositors' unfavorable perception of the local banks meant the local banks had to offer higher deposit rates than their foreign counterparts. This increment in the deposit rate translated to an increase in the risk of default for local banks. By adopting a high lending appetite, the banks forewent undertaking the required credit assessment practices.

Non-compliance with banking credit principles

Aside from having poor credit assessment practices, the banks also failed to comply with banking regulations such as the single obligor limit. The single obligor limit is the maximum amount a bank may lend to any given individual or institution. From the research conducted, this limit was exceeded in favor of certain shareholders and clients. It was also established that major shareholders defied banking and risk management rules by using the funds of depositors as their personal reserves. In some cases, shareholders' funds were used to launch and personally invest in other businesses.

Excessive shareholder control

Major shareholders reportedly had excessive control in the daily operations of the banks. The excessive control by shareholders can be linked to lending to high risk

borrowers and improper shareholder lending. Major shareholders determined the lending practices by controlling managers. This allowed them to lend to themselves while employing improper lending practices. This excessive control also translated to banks non-compliance with credit regulations and the use of the banks' funds as the personal reserves of owners. In one of the failed banks, the undue influence of shareholders led to the bank paying for brand name royalties at a time when it was struggling financially. It was later revealed that this decision was taken without the knowledge of other minority shareholders on the board.

Misreporting of Finances

Misreporting financials was another activity the managers of the collapsed banks engaged in. The banks fabricated investments in their accounts, overstated their investments in other entities, their loans and advances to customers and inflated their value of the shareholder's capital by leveraging their fixed assets. In one of the banks, it was observed that the chief executive officer failed to disclose to the board of directors, a loan payment the company had received from its debtor.

All of these unethical practices created an inaccurate picture of the company's financial standing. Making it hard for the regulator to take the appropriate actions. In order to prevent some of these actions, banks are required to have independent auditors. The neutrality of auditors was reportedly compromised in these institutions.

Fraudulent/Improper License acquisition

In acquiring their banking licenses, some banks utilized their political connections. This ties in with the politically motivated regulatory environment identified. Other banks secured their banking licenses either by using certificates of non-existent investments or by restructuring suspicious capital placements to local

financial institutions. As a result of these actions, non-qualifying institutions were given the clearance to operate, compromising the country's banking sector.

Funds Misappropriation

The mismanagement of company funds was another action by managers and shareholders that led to the collapse of their financial institutions. As stated earlier, shareholders' funds were used in setting up other businesses. Liquidity support given by the BoG to help the struggling banks, was in one case, used to set up another bank and transferred to shareholders' related companies. A portion of the liquidity support was also used to pay for business promotion managed by a board member. In other banks, the liquidity support was used to service maturing debt obligations and credit lines. Funds were also used as fixed deposit payments in a company owned by a shareholder.

Improper Board Practices

The payment of brand name royalties without the knowledge of some board members exemplifies the improper board practices adopted by the boards of the banks in question. In addition to shareholders combining the operations of their companies with that of the banks, some of the boards were found to have approved enormous compensation packages which were inconsistent with their bank's performance. Non-executive directors were also blamed for failing to scrutinize the actions of their executive counterparts.

Finally, it was found that the infrequency of board meetings presented another board practice that negatively impacted the banks.

A list of the direct actions of managers and shareholders is presented in the table below, as extracted from the meaning units of the content analysis.

Table 3 showing the direct actions of managers and shareholders

Actions of Shareholders and Managers
Inter related lending
Loan approval without necessary process
Granting of loans earning no interest
Lending to risky borrowers
Breaching single obligor limit
Use of depositors funds as personal funds
Shareholder excessive control of managers
Exaggeration of investments
Overstatement of loans and advances to customers
Fabricating investments
Re-engineering capital
Use of BoG liquidity support to setup bank
Use of bank funds to pay off obligations in related companies
Infrequent board meetings
Non-executive directors disregarding duties
Approval of large compensation packages

4.4 Research Question 2: Under which areas of the IFC's corporate governance framework can the actions and inactions of managers and shareholders, leading to the collapse of their banks, be categorized and evaluated?

The actions of managers and shareholders outlined above were analyzed using the IFCs corporate governance framework. Where applicable, empirical and theoretical studies were used to buttress or contradict the findings. The relevant areas were subsequently listed.

4.4.1 Applying the IFC Framework

Structure and functioning of board

Level 1 CG practices in this area demand that the board of directors meet regularly to discuss important issues and devise strategies for growth. As exposed in

the analysis, board meetings were held sporadically in these banks. The boards were therefore unable to deliberate on issues and strategize on the best course of action. In a sense, this gave directors the leeway to engage in corrupt practices. Level 2 calls for the board to be composed of qualified and skilled persons. One of the defunct banks had a board chairman who was solely a religious leader with no previous banking experience. The lack of skill and banking expertise by the board chair can be associated with the bank's collapse as it could be argued that he did not understand fully the implications of certain decisions.

Board duties and responsibilities were not clearly defined in the banks. From the excessive shareholder control in daily operations to the use of depositor's funds as a personal reserve, it is clear that the power of the owners was unrestricted. Non-executive directors were noted to have abandoned their duty of scrutinizing their executive counterparts owing to the fringe benefits they were made to enjoy. This means there were truly no independent directors on the board, weakening the structure and functioning of the boards. There was a failure to uphold any standard corporate governance practices in this area and this prevented the boards from functioning in their full capacity.

The banks failed to implement common practices in this area. In respect to the competence of the board, Westlake (2013) found that bank directors are expected to comprehend fully the intricacies of the financial industry. This allows them to ask relevant questions and monitor the right metrics. The competence of a religious leader with no banking expertise chairing a bank's board can easily be linked to the bank's failure as evidence from the 2008 global financial crisis revealed that banks with board chairs having a finance background performed better.

Atuahene (2016) propounded that Ghanaian boards are not autonomous but are rather controlled by family-elected directors who pursue their self-serving schemes.

This statement when analysed alongside the actions of the board, holds somewhat true. Although the content analysis did not reveal any family relation on the boards, the pursuit of self-serving schemes was very much evident. Board members transferred parts of the granted liquidity support to their related companies. Others used the liquidity support to pay off maturing debt obligations in their related companies while others simply used depositors' funds to invest in other companies. The recurrent theme is a transfer of funds to related companies. Exhibiting the self-serving schemes mentioned by Atuahene (2016).

Additionally, the importance of non-executive directors on boards was reiterated by Tetteh (2019) who established a significant inverse relationship between the number of non-executive directors on boards and the non-performing loans of banks. In the defunct banks however, non-executive directors neglected their fiduciary duties and thus, failed to improve board functioning. The functionality of the board was greatly influenced by overbearing shareholders.

Control Environment and process

This area is generally concerned with internal control processes meant to keep operations sound. The employment of risk management structures and independent auditors are among some of the ways the best corporate governance practices can be achieved in this area. The single obligor limit is one such risk management structure. UT Bank breached its single obligor limit of GHS 20 million through its exposure valued at GHS 302 million to Mr. Ibrahim Mahama and his related enterprises. The bank also granted a number of under-collateralized loans including one with collateral worth GHS 990,000 for a loan of GHS 30.8 million. Unibank similarly granted GHS

5.3 billion to related enterprises and shareholders with GHS 1.6 billion not being secured by any collateral.

Beige Bank contravened the cash reserve requirement of 10% with its cash reserves of 1.97%. The bank also recorded a capital adequacy ratio of -17.2% contrary to the regulatory benchmark of 10% and non-performing loans of 72.8%. Royal Bank recorded a capital adequacy ratio of -80.53% and non-performing loans made up 78.8% of its entire loans. Loans to shareholders and related parties were valued at GHS 162 million.

Poor credit assessment practices such as the granting of loans with insufficient collateral as well as lending to risky borrowers characterized the control environment and process of these banks. The banks found ways to manoeuvre the single obligor limit, a structure meant to minimise their risk exposure. They engaged in practices that unavoidably led to the accumulation of a high value of non-performing loans.

Per the IFC framework, the board of directors are expected to consistently review their institutions adherence to risk management standards and processes. In the case of these banks however, directors and shareholders connived to negatively influence the lending procedures and risk practices as they exerted their power to grant loans to related parties with little to no collateral. The companies' risk management structures, if existent, could be described as ineffective as they were neglected by shareholders looking to lend to related parties.

As stated, the banks' shareholders unduly influencing the credit and risk procedures is indicative of the high ownership concentration in the banks. High ownership concentration, defined as a high degree of control exerted by owners, in a bid to protect their interests, is a phenomenon that has long been associated with

developing countries. Similarly, Agyemang and Castellini (2015) found no separation of ownership and management in Ghanaian companies.

Controlling shareholders largely influence operations. This is blamed on regulators weak corporate governance enforcement. Shareholders are thereby forced to actively safeguard their investments. This is consistent with the empirical study by Berglof and Claessens (2004) detailed in the literature review above. Their study also noted that countries with inefficient contracting systems have corporate governance systems typified by extreme ownership concentration that translates to limited risk diversification and poor performance.

True to this, it was observed that the failed banks, whose shareholders were actively involved in their operations, failed to adequately diversify their risk. Their failure to diversify risk was seen in their overexposure to certain clients and their significant related party transactions. This ultimately led to their abnormally high non-performing loans stated above. Applying the agency theory, the shareholders of the banks understood that their agents (managers) were unlikely to act in their best interest at all times. In order to curb this, the shareholders of the banks should have employed proper strategies to keep managers in check, rather than attempting to direct operations themselves.

Disclosure and Transparency

UT Bank failed to adhere to basic level 1 CG practices with regards to the area of disclosure and transparency. Level 1 requires that companies comply with the highest accounting disclosure principles in their countries. Ghanaian institutions have since 2007, been expected to adhere to International Financial Reporting Standards (IFRS). These standards require organisations to disclose all cash receipts from clients which UT Bank failed to do.

Furthermore, both Capital Bank and UT Bank failed to disclose their financial statements in the 2 years leading to their collapse. This was in breach of sections 78 and 90 of the 2016 Banks and Specialised Deposit-Taking Institutions Act 960 which require banks to annually produce financial statements informed by transactions of the most recently ended year, and to publish these statements. The entire category of ‘misreporting finances’ can be placed under this area of the framework. By misreporting their finances, the companies failed to comply with national reporting standards adopted. The integrity of auditors is also brought into question as independent auditors were expected to review the companies’ financials. Section 85 of Act 960 requires auditors to submit to the Bank of Ghana at least once a year, an audit report “giving a true and fair view of the state of affairs of the bank and its results”.

The empirical findings on disclosure and transparency generally correspond with the findings above. Ahorlu (2019) established that Ghanaian banks have a low level of disclosure. This ties in with the companies misreporting their finances or not publishing their financials altogether. Normally, managers misreporting finances would have been explained by the agency theory and under the guise of managers seeking to increase their personal wealth illegally and at the expense of shareholders. In this case however, misreporting finances was done by managers as a result of fraudulent transactions commissioned by shareholders.

Treatment of minority shareholders

Capital bank failed to observe the rights of minority shareholders. Intermediate (level 2) practices require that minority shareholders are properly represented and that their views be considered in board settings. This level further requires the firm to have agreed upon principles concerning the complete and prompt disclosure of information

to all shareholders, and that these principles be complied with. The bank, by coming to a decision without the consent of its minority shareholders, disregarded these principles. This caused a significant international minority shareholder to terminate its relationship with the bank. This termination subsequently led to international creditors calling back their loans and credit facilities, inducing liquidity problems for the bank. Across all the affected banks, it was found that high compensation packages were being administered. This, in the IFC framework, is associated with the treatment of minority shareholders.

In organisations applying advanced corporate governance practices, executive compensation packages are subject to the consent of shareholders. In the case of these banks, the payment of compensation packages inconsistent with the performance of the bank may be suggestive of the fact that the interests of directors overrode all others. Minority shareholders expect that the firm's best interest is looked after. This was not the case as compensation packages were being paid despite the banks struggling financially. Non-executive directors who have a fiduciary duty to supervise and preserve the best interest of the entity, either neglected their duties or were disregarded.

The actions of managers and shareholders can therefore be classified under 4 areas of the IFC's framework. Namely: the structure and functioning of the board, the control environment and process, disclosure transparency and the treatment of minority shareholders. These are the 4 areas of the IFC corporate governance framework in which managers and shareholders of the defunct banks fell short.

4.3 Conclusion

The findings and discussions above have highlighted how the managers and shareholders of the banks were largely to blame for their collapse. Direct actions leading to the collapse included: lending to risky borrowers, approving loans earning no interest income or backed by insufficient collateral, breaching the single obligor limit and as a result, overexposing their banks to clients, who often turned out to be risky borrowers. This ties in with poor the poor credit practices employed as a result of the excessive shareholder control in the daily operations of the banks. Lending to parties associated with directors and shareholders were also noted to be an action leading to the collapse as these loans often remained unpaid. The wrongful use of funds and subsequently misreporting finances were other actions linked to the collapse of the banks.

In using the IFC framework to evaluate the malpractices of directors and shareholders, the four areas within which the malpractices applied were: the structure and functioning of the board, the control environment and process, disclosure transparency and the treatment of minority shareholders. In evaluating the structure and functioning of the board, the analysis revealed that by not having frequent meetings, the directors gave room for unethical practices to remain unchecked. The functioning of the board was further hindered by directors who pursued their selfish interests by transferring liquidity support to their related companies. The control environment was characterised by directors and shareholders disregarding risk management mechanisms and lending practices.

The banks breached their single obligor limits and independent auditors failed to perform their duties. With regards to the disclosure and transparency of the banks, the banks defied banking regulations by failing to publish their financials. The failure to publish financials was attributed to managers attempting to cover up the damage caused by the poor lending practices employed. The banks further failed to observe basic practices in the area of minority shareholder treatment. By taking decisions without the consent of minority shareholders and by paying large compensation packages inconsistent with performance, it was established that minority shareholders faced poor treatment.

CHAPTER 5: CONCLUSION

5.1 Introduction

This chapter provides a brief summary of the results, findings and analysis that inform the conclusions drawn. Recommendations for future studies and the limitations of the study are also discussed in this chapter.

5.2 Summary

This thesis sought to investigate how Ghana's 2018 banking crisis was a consequence of corporate governance malpractices and the direct actions undertaken by managers and shareholders of the Ghanaian banks declared insolvent between 2017 and 2018 namely: UT Bank, Capital Bank, Unibank, Royal Bank, Beige Bank, Sovereign Bank and Construction Bank. Furthermore, these actions were categorized and evaluated using the IFCs corporate governance framework.

Previous studies focusing on corporate governance in Ghana had failed to disclose managerial practices. The studies often quantitatively measured the performance of banks against certain governance monitoring mechanisms and thus the need for an analysis on the actions of managers and shareholders.

The literature review provided extensive information regarding theoretical and empirical corporate governance studies as well as the changing nature of corporate governance worldwide. The chapter also reinforced the importance of corporate governance in the profitability and risk management of banks, and its corresponding importance in the soundness of a country's financial system.

186 newspapers were scanned for texts regarding the banking crisis with a total 58 texts being identified and analysed. Categories and themes were derived from the

meaning units identified and these were further analysed using the IFCs corporate governance framework.

5.3 Conclusion

The meaning units derived from the data were used in answering the first research question, which was concerned with the direct actions of managers and shareholders, causing the collapse of their banks. The actions identified included: interrelated lending, loan approval without the necessary process, granting of loans earning no interest, lending to risky borrowers, breaching the single obligor limit, the use of depositors' funds as personal funds, shareholder excessive control of managers, exaggerating investments, overstating loans and advances to customers, fabricating investments, re-engineering capital, misuse of BoG liquidity support, use of bank funds to pay off obligations in related companies, infrequent board meetings, non-executive directors disregarding their duties and the approval of large compensation packages. Excessive shareholder control was identified as one action that was largely connected to many other actions. Excessive shareholder control negatively affected lending practices, leading to non-performing loans and the inevitable collapse of the banks.

The second research question was concerned with analysing and categorizing the actions of managers and shareholders using the IFCs corporate governance framework. The 4 areas in which the actions could be categorized were: the structure and functioning of the board, the control environment and process, disclosure transparency and the treatment of minority shareholders. In each of these areas, the defunct banks struggled to meet the basic corporate governance practices.

This study has successfully shed light on the corporate governance malpractices that led to collapse of seven Ghanaian banks between 2017 and 2018.

The BoG's commitment to better corporate governance practices is notable from its publication of a corporate governance directive. In auditing the operations of banks, the auditor should focus mainly on lending to related parties as this has the potential of causing serious ruins to banks.

5.4 Recommendations for future studies

Future studies should look to identify the corporate governance practices of well-performing Ghanaian banks so they can be juxtaposed with the practices of these failed banks. This may offer valuable insight to the regulator regarding aspects of the Ghanaian banking industry that require reforms. Additionally, future studies should inculcate the annual reports of banks in order to have a more complete view of the governance structure of the banks.

5.5 Limitations of this study

When undertaking a content analysis, it is generally recommended to have more than one researcher develop the categories for the study. This is intended to validate the categories derived while ensuring that all possible categories are captured. This study unfortunately did not implement this practice and thus, the validity and extensiveness of the data may be questioned.

Secondly, the texts analysed in the content analysis revealed very little about the governance documentation of the banks. This made it impossible to analyse the banks' practices in two areas of the IFC framework which are heavily dependent on these documents.

Finally, the non-availability of Ghanaian print media online meant all newspapers had to be scanned manually. A coding software could not be used in identifying the key words and quantify how often they appeared. All categorisation of texts had to be done manually, making the process more prone to error.

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