The Role of State and Foreign Investors in Corporate Governance: Evidence of the Banking Sector Privatisation of Ghana

A thesis submitted to the University of Manchester for the degree of PhD in the Faculty of Humanities

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<td>ACCB</td>
<td>Agricultural Credit Cooperative Bank</td>
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<td>ADB</td>
<td>Agricultural Development Bank</td>
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<tr>
<td>BBG</td>
<td>Barclays Bank, Ghana</td>
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<tr>
<td>BCC</td>
<td>Bank for Credit and Commerce</td>
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<tr>
<td>BED</td>
<td>Bank Examination Department</td>
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<tr>
<td>BHC</td>
<td>Bank for Housing &amp; Construction</td>
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<tr>
<td>BOD</td>
<td>Board of Directors</td>
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<tr>
<td>BoG</td>
<td>Bank of Ghana</td>
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<tr>
<td>BSD</td>
<td>Bank Supervision Department</td>
</tr>
<tr>
<td>CDH</td>
<td>Consolidated Discount House</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CG</td>
<td>Corporate Governance</td>
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<tr>
<td>CIPE</td>
<td>Centre for International Private Enterprise</td>
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<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
</tr>
<tr>
<td>DDF</td>
<td>Dutch development fund</td>
</tr>
<tr>
<td>DIC</td>
<td>Divestiture implementation committee</td>
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<td>ERP</td>
<td>Economic Recovery Programme</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FINSAP</td>
<td>Financial Sector Adjustment Programme</td>
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<td>FSAC</td>
<td>Financial Sector Adjustment Credit</td>
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<td>FOB</td>
<td>Foreign Owned Banks</td>
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<td>FSSA</td>
<td>Financial Sector Stability Assessment</td>
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<td>GCB</td>
<td>Ghana Commercial Bank</td>
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<td>GEFC</td>
<td>Ghana Export Finance Company</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross national product</td>
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<td>Acronym</td>
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<td>GoG</td>
<td>Government of Ghana</td>
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<td>HIPIC</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ISSER</td>
<td>Institute of Statistical Social and Economic Research</td>
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<td>MBG</td>
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<tr>
<td>MD</td>
<td>Managing Director</td>
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<td>MFEP</td>
<td>Ministry of Finance and Economic Planning</td>
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<td>NBFI</td>
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<td>NED</td>
<td>Non-executive director</td>
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<td>NDC</td>
<td>National Democratic Congress</td>
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<td>Securities and exchange commission</td>
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<td>SOE</td>
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<td>SOB</td>
<td>State owned Bank</td>
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<td>SSA</td>
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<td>SSB</td>
<td>Social Security Bank</td>
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<td>SSNIT</td>
<td>Social Security &amp; National Insurance Trust</td>
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<td>WB</td>
<td>World Bank</td>
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Abstract

The concept of corporate governance and its impact on sustainable growth and profitability of banks has been embraced worldwide. Whilst most studies on banks in Ghana were related the financial sector reforms to performance, no work has been done on the effect of the reform on corporate governance. Specifically, no study is known to have related privatisation to corporate governance of banks in Ghana. Meanwhile, such studies are relevant to evaluate whether the divestment of state ownership improved corporate governance of banks. Using the generalised agency theory combined with the institutional perspective, the study has established that the problems relating to privatisation and the corporate governance are complex and multidimensional. Using desktop analysis, questionnaire surveys and case studies, this study examined how corporate governance changed since the banking sector privatisation in Ghana between 1995 and 2000 and its possible effect(s) on the corporate governance outcomes. To effectively analyse how corporate governance in Ghanaian banks has changed since the sector privatisation, the thesis addressed the following research areas: the state of corporate governance before privatisation, how states continuous residual ownership affected corporate governance of banks, how foreign investors’ involvement in privatisation affected corporate governance of banks and whether or not the ownership forms affected the internal control and risk issues differently. The state of corporate governance did not change significantly in state owned banks after the sector privatisation. The questionnaire survey and case studies showed that corporate governance weakness was widespread in state owned banks resulting in outcomes such as frauds, insider lending and the abuse of depositor’s funds by agents of government prior to the sector privatisation. This however changed after divestment of government’s shares some of these banks. All the banking forms studied experienced concentrated ownership due to the strategic privatisation adopted by government of Ghana. The studies confirmed that, the continued government influence adversely affected top management performance. For example COOP and NIB continued to use their pre-privatization top managers after privatization experienced more managerial entrenchment. Thus, continuity in top management from SOE to privatized firm reduced the likelihood of organizational restructuring, since managers lacked the skills or knowledge to introduce initiatives that enhance bank firm performance. It also confirmed that the continuous government residual ownership and interruption resulted in minimum restructuring and or persistence of old corporate structure, and limited management evaluations. As a result, corporate governance weaknesses such as poor internal control systems and poor risk persisted during and after the sector privatisation. These weaknesses led to problems such as related party transactions, frauds, abuse of depositor’s funds and sectoral lending. Even in partially privatised banks, the activities of cartels led to collusion and fraudulent practices during the study period. Privatised banks in the foreign control reported
stronger corporate governance structures before and after their acquisition of government shares. Foreign investors who held sufficiently high proportion of a company’s shares justified their combining ownership with degree of board control, in contrast to the state owned banks. FOBs studied registered no irregularities in top management after government buyout. FOBs Consistent with their reputation and experienced in the banking business, foreign investors maintained strict control of managers’ actions and exerted close monitoring of management activities to ensure superior performance. Even the former SOB (SG-SSB) experienced no weaknesses after privatisation. This confirms that, when majority shareholdings were sold to foreigners, corporate governance improves. The findings also re-enforced the importance of the legal and regulatory enforcement in liberalised or privatised banking environments. Whilst it was the intention of the law to tackle agency problems between insider controller (controlling agents) and other stakeholders, the pre-privatisation regulation framework, paid insufficient attention to another type of agency problem. The empirical findings indicated weak and lax enforcement of the rules by the regulators. Poor enforcement of the regulation as reported by the cases negated any merits of the pre-privatization (1989) regulations. The corporate governance problems experienced appeared to have been curtailed by the post privatisation banking Act 673 of 2004, which was noted to be more robust and enforceable across ownership types. The new regulations, which set a new standard on the quality of bank owners, managers and internal control system, appeared be more effective in tackling corporate governance weaknesses in most banks, hence the near absence of poor corporate governance practices between 2004 and 2010.

**Keywords:** corporate governance, privatisation, state-owned banks, foreign-owned banks.
Declaration

I, Enya Mensa Ameza hereby declare that no portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or other university or other institution of learning.

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Chapter One: Introduction and Research Description

1.1 Background

Economic reforms in the late 20th century brought a significant revolution in the global economy leading to a liberalisation and prudential regulation spree, which in turn emphasised the need for efficient and sound financial and banking sectors (Arun, 2004). This wave of economic reforms has also created millions of new owners whose financial fortune depends upon the performance and survival of the corporations in which they have invested. However, despite the implementation of these reforms, the results have been disappointing (Aryeetey et al., 1997; Brownbridge and Kirckpatrick, 2000). Scores of corporate failures including some famous ones such as Northern Rock, RBS, City Bank and others coupled with turbulent financial crises around the world, have generated renewed interest into the quality of corporate governance (CG), in financial institutions (John and Young, 2008; Griffin et al., 2009; Du Plessis et al., 2010; Ferrell et al., 2012). Financial firms demand much more attention to their governance, since their failure have far reaching systemic implication for economy at large (Winkler, 1998; Bhattacharyya and Purnanadam, 2012).

Poor corporate governance of banks has been viewed as one of the structural weaknesses that were responsible for the onset of the IMF led Financial Sector Adjustment Programme (FINSAP) in developing countries, such as Ghana. For example, state owned banks (SOBs) are inadequately monitored by boards of directors in the absence of a strong market for corporate control. In these SOBs, controlling managers were said to have pursued their private interests relatively easily, often at the expense of minority shareholders and the firms’ profits before part one of the financial sector reform was implemented (Brownbridge and Gockels, 1996). Even though economic growth has rebounded after FINSAP despite seemingly limited progress in improving corporate governance (Antwi-Asare, 2000), this should not be taken as evidence that corporate governance of banks matters little in Ghana. Without strengthening corporate governance, economic growth is unlikely to be sustainable and may be vulnerable to another crisis in the future (Baumol et al., 2007; Boubakri et al., 2012).

Understandably, Financial Sector Adjustment Programme (FINSAP) packages have given high priority to corporate governance reform. FINSAP measures have included improving specific governance mechanisms both within banking firms and in external mechanisms (such as regulatory reforms), and
strengthening the rights of small shareholders by making it easier for them to exercise such rights (Brownbridge and Kirkpatrick, 2002). Nevertheless, many people doubt that these corporate governance reforms measures have been taking root in the developing economies. They are sceptical that the IMF model (based on Anglo-American framework) will work in this highly concentrated ownership structure of banks after the sector deregulation. Critics observed that the changes introduced were superficial, because embedded institutional and socio-cultural norms and values limit the effectiveness of the newly instituted mechanisms (Nam, 2004). For instance, board of directors chaired by the controlling agents consisting largely of insiders and outsiders handpicked by the government is unlikely to challenge management proposals or enforce restructuring measures, especially in cultures that discourage overt opposition to authority (Berglöf and Roland 1998; Peng et al., 2008).

In developing countries, issues such as weaker public and legal institutions, concentration of ownership, reliance on internal finance due to weak capital markets, the existence of special interest groups, dominant government ownership of banks and ineffective prudential regulation and supervision make it easier for banking agents and distributional cartels to misappropriate bank funds raising the risk of bank failures (Osman, 2003). Developing economies also lack takeovers that discipline poor performing managers and weak institutional investor monitoring (Berglöf and Claessens, 2006), may be due to conflicts of interest in the case of private investment funds and limited investment by public investment funds (Winkler, 1998). These poor responses to the FINSAP by the banks were attributed largely to the lack of the appropriate CG mechanism (Winkler, 1998; Nam, 2004). The development of a robust financial system requires trust between banks and stakeholders as there is ample opportunity for moral hazard and adverse selection. Without sound corporate governance in banks, such trust will not deepen, thereby impeding the growth of the market relationship, which is vital for developing a strong financial system (Winkler, 1998). The opaqueness of bank portfolios, broader extent of claimants, heavy reliance on debt, high social costs, and enhanced moral hazard, all support the case for urgent attention being directed towards banking sector governance (Oman, 2003).

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1 This model based on shareholder sovereignty was questioned even in those countries where it originated (Gustavson et al., 2009).

2 Evidence suggests a negative relationship between state ownership of banks and banking sector development and efficiency (Levine, 2003). Typically, SOBs have larger NPLs than private banks (Mishkin, 2005).
1.2 Rationale of Study

As part of the FINSAP, government of Ghana divest its shares or control in public banks under the sector-wide privatisation strategy between 1995 and 2000. Privatisation provides a paradigmatic example of the more general proposition that establishment of a market economy requires a change in the role of government rather than the elimination of all government action, with the new role being one that focuses on providing an environment within which the private sector can act effectively (Williamson, 1998). Thus, putting the private sector rather than the government in charge of determining who gets credit and at what price (Williamson and Mohar, 1998; Claessons et al., 2008).

In attempt to cede banking sector business to private owners and or professional managers, the government of Ghana divested its shares in some public banks, management and advanced measures to regulate the liberalised sector in early in the 1990s. Relevant to this study are the reforms made to deregulation of ownership of banks that gave way to divestment of government’s interest partially or fully. Secondly, bank autonomy was considered to be crucial, if market forces should work efficiently. Professional managers were made to control the bank business instead of politicians or bureaucrats from government ministries. Thus, by depoliticizing the firm, privatization separates politics, state management, and economic activities, thereby keeping the state out of day-to-day business of privatized firms (Johnson, 2009; Hellman and Kaufmann, 2003).

The effect of privatisation on corporate governance is therefore likely to depend on how control is allocated across types of owners during the privatization process. It is argued that corporate governance may be weaker in state-owned banks (SOBs) than in private banks because of some peculiar agency problems. SOBs have multiple objectives and many principals who have no clear responsibility for monitoring (Alchian 1965). Since there is no way for any single owner to sell shares of an SOB, individual owners or tax payer stand to gain or lose less from firm performance than private owners who can sell their shares, so owners of SOBs are less likely to effectively monitor management performance in SOBs (see 2.7.2 below). Alternatively, when government is the sole or concentrated owner, its agents are free to pursue inefficient goals and have lower

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3 It was discussed already that before reform the Ghanaian economy had a financial system of the sort that of Shaw (1973), characterized as “repressed”. Literature generally looked at privatisation from two complementary change perspectives that establish a modern banking system capable of acting as the “brain of the economy” and allocating the economy’s savings in the most productive way among different potential investments.

4 Strong government intervention may lead banks social and employment goals. For instance, government policies that seek to maximize social stability and employment (Fogel et al., 2008) may constrain SOB’s ability to undertake profitable ventures.
motivation to monitor management (Vickers and Yarrow, 1991; Boardman and Vining, 1992). For example, SOB are said to have poorer corporate governance due to the weak incentives managers have to perform efficiently (Berglof and Roland, 1998; Liet al., 2008). Reasons stated were that, SOB managers do not face a market for their skills or a credible threat of losing their job for non-performance, and bankruptcy, liquidation or hostile takeover are not credible threats for public firms (Berglof and Roland, 1998). Thus, SOBs may not adequately be monitored; leading to poor incentive structures, as there is no individual owner with the necessary incentives to engage in active monitoring (Clarke et al, 2005). In addition, the government appoints managers (bureaucrats) that maybe good at dealing with politicians but not necessarily at effectively facing competitive market conditions. The lack of adequate monitoring of these politically-oriented managers/bureaucrats will likely discourage management performance, thus hindering or delaying improvements in privatised or corporatized SOBs (Fan et al., 2007; Boubakri et al., 2008). Based on these observations, it can be hypothesized that government residual ownership in banks may be negatively related to good corporate governance.

However, privatized firms may not perfectly mimic private firms (Stiglitz, 1999). Some argue that if the root cause of poor SOB performance was an institutional environment (e.g. weak legal and regulatory enforcement) that hampered voters from holding politicians accountable, then privatization will be as prone to error as SOB management (Stiglitz, 2000). For example, underdeveloped capital markets, weak court systems, inadequate procedures for bankruptcy or takeover will all prevent privatized firms from performing efficiently (Cook and Kirkpatrick, 1997).

When majority bank shareholdings were sold to outsiders, especially to foreign investors, management monitoring improved (Claessen et al., 2001). Comparatively, foreign investors play a more active role than local investors in advocating better firm-level governance which may influence overall corporate governance quality (Ferreira and Matos, 2008). Foreign owners who are offered tranches in privatized firm are more likely to better monitor management performance, given their financial resources and managerial know-how they bring into the organisation. However, banks in developing economies will be less efficient if they are sold to their managers and workers since this may prevent necessary restructuring and limit capital infusion (Ayogu and Fosu, 2002). Local indigenous large owners may be hampered in their monitoring efforts because of the possible lack of

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5Micco et al (2004) find that the presence of foreign banks is associated with increased competitiveness of domestic banks. FOBs are better than domestic banks at monitoring ‘hard’ information (e.g. accounting information, collateral value), but are noted to lend to safer and more transparent customers (Mian, 2006). Giannetti and Ongena (2007) documents that foreign presence can help mitigate connected lending problems and improve capital allocation.
resources and expertise to monitor their investments.⁶ The banks may also have connections with the country's governing elite and may be seeking business or political favours in return for acquiescing with government requests.⁷ Thus, large local institutional shareholders may not always use their influence through board representation to exercise control over management.

While a large body of literature documents that agency conflicts resulting from the separation between ownership and control affect corporate governance (e.g., firm mentoring, restructuring, divestment, and mergers), an issue that remains largely unexplored is the impact of shareholders’ identity on corporate governance as an evidence of privatization (Boubakri et al., 2012; Djankov, 1999). Understanding how new ownership identity affects monitoring and evaluation of management is important, as illustrated by the wave of government bailouts to contain the financial distress in the Ghanaian SOBs before and after FINSAP (Brownbridge et al, 2000). Whilst corporate governance in privatised or private financial organisations has dominated policy agenda in developed market economies for more than twenty years, it is now warming its way to the top of the policy agenda of developing economies. The Asian crisis and the relative poor performance of the banking sector in sub-Saharan Africa have made corporate governance a catchphrase in the development debate (Ayosu and Fosu, 2002). Ghana is increasingly embracing the concept of good corporate governance because of its ability to impact positively on sustainable growth and valuations and boost the bottom-line. For example, studies on corporate governance of financial institutions have increased over the last fifteen years (Castellini and Agyemang, 2012; Badu, 2012; Brownbridge and Gockels, 1996; Mensah, 2004; Tsamenyi et al., 2007; McGee, 2009; Tshorhe et al, 2011).

However, there are no known studies that analysed the effects of privatisation on corporate governance in Ghanaian banks. To the best of the researcher’s knowledge, this study is the first to provide a detailed analysis of privatisation and corporate governance in the banking sector of Ghana. Although there were studies by Zorklui (2001) and Antwi-Asare (2000) analysing liberalisation and performance with respect to the banking sector, no study has so far analysed the relationship between privatisation and corporate governance specifically for the banking sector of Ghana. This doctoral thesis attempts to examine the effects of privatisation of state banks on corporate governance in the banking sector of Ghana.

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⁶See Arun and Turner, 2002; Ayogu and Fosu, 2002
⁷Local banks are also notably linked with politicians who increase the problem of moral hazards (Arun and Turner, 2002).
The study is expected to contribute significantly to the discourse on corporate governance of privatised banks in developing countries in general. It is also expected to become the reference point for future studies on corporate governance mechanisms within the Ghanaian banking sector. Second, by showing how state and private owners’ condition banks’ corporate governance, the literature is extended on the importance of the shareholders ‘identity (Guedhami et al., 2009). Finally, the study contributes to the literature on the institutional environment and ownership structure in privatized banks (Boubakri et al., 2005) by documenting that the legal and regulatory enforcement conditions the corporate governance practices of private banks (including foreign owners).

1.3 Objective

The main objective of the study was to examine how corporate governance changed since the banking sector privatisation in Ghana between 1995 and 2000 and its possible effect(s) on the corporate governance outcomes. To effectively analyse how corporate governance in Ghanaian banks has changed since the sector privatisation, the thesis addressed the following research questions:

i. What was the state of corporate governance before privatisation?

ii. How did the states continuous residual ownership affect corporate governance of banks?

iii. How did foreign investors’ involvement in privatisation affect corporate governance of banks?

iv. Did the ownership forms affect the internal control and risk issues differently?

1.4 Research Scope

As previously stated, the purpose of this study is to analyse the effect of privatisation on corporate governance. To achieve this, commercial banks with a particular focus on banks with government residual ownership and banks acquired by foreign investors between 1995 and 2000 were considered. There are a number of reasons why this study focuses on banking sector. First, commercial banks hold the largest share of deposits in the Ghanaian banking sector, commanding close to eighty-five percent of the financial market share (BoG, 2009). Second, after a monopoly by state owned banks, financial sector privatisation and deregulation resulted in the licensing of a number private sector banks. As a result, there was a decrease in state banks and growth of foreign
and private indigenous banks in the 1990s. The effect of the privatisation on corporate governance of the free banks (privatised) provides a fertile ground for research. Third, a number of banks experienced pre-privatisation restructuring between 1991 and 1994 (presumably given operational autonomy) and, while private sector banks (foreign and local) were established as a result of the sector deregulation through a new licensing regime. The corporate governance should relate to the post-privatisation ownership concentration and ownership types. Fourth, banks with government residual ownerships suffered financial distress or collapsed after their privatisation. An analysis of the problems in these banks and comparison with foreign banks would be informative. Finally, the study also examines the need to put in place an appropriate regulatory framework prior to privatisation and deregulation, which could have prevented any possible corporate governance challenges or banking crisis. Privatisation without supportive arrangements regulation and supervision can easily lead to anti-social behaviour by bankers, of the forms referred to as "looting and gambling" (Williamson, 1998; Li et al, 2008; Pent et al, 2010).  

The main study period was set between 1995 and 2000. The time of bank establishment is used as an important background. The study period covers the period from the pre- and post-privatization. Thus, between 1995 and 2000, that spans the period of the actual privatisation in the banking institutions in Ghana. Based on this timeline, the study was able to analyse privatisation, ownership structure and corporate governance aspects both before and after financial crisis in public banks in 2000.

1.5 Structure of thesis

This thesis contains a total of nine chapters. Chapter 2 reviews literature on corporate governance, privatisation and the institutional perspective. It begins with a discussion on theories of corporate governance such as the agency theory and stakeholder of corporate governance. It then reviews literature on the extended agency theory, the institutional perspective and corporate governance of banks before moving on to literature on post privatisation ownership structure, Chapter 3 sets out the methodology chapter. After which chapter 4 highlight historical background to the analytical chapters and provides an overview of the banking sector. It dilates also on the privatisation performance of the banking sector before and after FINSAP.

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8 Thus, weak regulation and lax enforcement are pre-cursor to government expropriation, selfish and political (Doidge et al., 2009; Leuz, 2010; Clarke and Cull, 2003).
The five chapters which follow (Chapters 5-9) present the results of data analysis. Chapter 5 presents the results from a questionnaire survey on the Ghanaian banking sector and provides an overall picture of change in corporate governance practices over the study period. In chapters 6, 7 and 8, the research questions are further addressed by a series of case studies. The case study chapters are employed in order to allow an in-depth analysis of selected banks. Three cases of state owned banks (privatised and or restructured) established before 1991 are studied in Chapter 6. Three foreign banks (privatised) established before 1991; Chapter 8 presented comparative analysis and Chapter 9 outlines the concluding and recommendations.
Chapter Two: Corporate Governance: A Review of Literature

2.1 Introduction

The foundations of the Modern Corporation were boosted when new legislation defining corporation was passed. The key concept of this legislation was the creation of an entity with its own legal base (Mason et al., 2007), being regarded as separate from the owners, yet holding many legal property rights, such as the ability to sign contracts, to sue and be sued, to own property, and to hire and fire. The consequence was that the spectacular growth of business led to the development of ideas concerning appropriate management and governance theories. However, strategies relating to the application of such theories to ensure the best interests of all the concerned parties from depositors to shareholders have been lacking. Researchers have placed importance in management and organisational theories with lesser focus on actual roles, behaviour and accountability of managers. The issue of Corporate Governance (CG) has been ignored until comparatively recently (Jensen and Meckling, 1998 and 2000). However, recent corporate failures in the business and financial sectors have brought this issue into focus (Oshinsky and Olin, 2005; Clark, 2008; Cole and White, 2012; and Berger et al., 2012). Evidence for a relationship between privatisation and sound governance has been demonstrated by several researchers (Coffee, 1999; Dyck, 2000 and 2001; Boubakri et al., 2005, 2008 and 2009). It is therefore, appropriate and reasonable to consider what the term Corporate Governance actually means, and this is considered in the following section.

The Ghanaian banking industry has been characterised by privatisation under FINSAP (including divestment of government shares and control in public banks), to encourage private ownership and or management. State ownership has not traditionally been concerned about the financial performance of investments, but rather with meeting social and political goals (Gerlack and Lincoln, 2000; Williams, 2005). Consequently, governments have been less concerned about the role of boards of directors in maximising shareholder wealth (Gerlack et al, 2006; Roe, 2004 and 2012). This changed in the advent of banking sector crisis in the late 1980s. The regulatory framework implemented in 1990 allowed for private sector participation in ownership and or control of bank business. Privatization or divestment of government stake in banks therefore provides an interesting setting in which to understand corporate governance, because it is a discrete event that often leads to a drastic change in the ownership structure. Corporate governance could be seen as a response to
the agency problems that arise from the separation of ownership and control in a corporation (Lawton, 2002 and 2012).

This chapter is organised as follows; the next section is a general overview of literature on corporate governance. In this section, the various definitions and models of corporate governance are presented. The following section after this discusses the nature of banks and literature on corporate governance of banks. The section after this discusses the conceptual framework adopted in this and the last section summarises the chapter.

2.1.1 Defining corporate governance

Corporate governance as a paradigm dates back to Adam Smith’s (1776) seminal publication the Wealth of Nations in which he expressed the fear that the level and quality of vigilance demonstrated by managers would be far less than that displayed by the shareholders of a firm. Corporate Governance therefore deals with concerns that one or more parties involved with organisational decision-making may not behave in the best interest of the organisation and associated parties (OECD, 2000). However, it is Berle and Means (1932), whose ideas evolved around the growing separation of power between the executive management of the major public companies and their shareholders, who are considered to be the pioneers in the contemporary thinking about CG. Later studies by Jensen and Meckling (1976) developed the agency theory which has become central to current debate on corporate governance.

The stakeholder theory is concerned with broader governance structures, governance mechanism include a wide range of institutional arrangements such as a set of strict accounting standards and financial disclosure requirements, highly developed capital markets and specialised financial institutions, a significant corpus of law and regulations, and well-functioning labour markets, etc (Roe, 2004).

From the finance perspective, providers fund to the corporations require assurances that their investments are both productive and protected (Shleifer and Vishny, 1998). Effective CG is about providing those assurances sustainably. Although, from a theoretical point of view, one may subscribe to the broader stakeholder perspective, this study concentrates on relationships (formal institutional) between shareholders, managers of banks (Including BODs) and regulatory agents, to keep the empirical analysis focused. With privatisation of state banks, the issue of new owners and the managers is crucial, because the states dual role of management and regulation has been curtailed.
2.2 Theory of Corporate Governance

Neuman (2007) defines a theory as a system of interconnected ideas that condense and organize knowledge about the world. The issue of corporate governance has come to prominence in various fields such as finance, economics, accounting, law, management, organizational behaviour and so on. There are several theories adopted in the corporate governance, but this research concentrates on two main streams of them: one is agency theory which is based on the interests of shareholders; the other is stakeholder theory which is based on the profits of all the stakeholders.9

Of the two conceptions the first seems to be dominant, especially in the Anglo-Saxon environment. In a somewhat different perspective the various corporate institutional systems prevailing in different countries may be seen, whoever are the principals, as different methods to deal with the problem of the separation of ownership and control. The second part of the present section is dedicated in particular to the consideration of the latter issue in the specific framework of the stakeholder view.

2.2.1 Agency Theory

The theoretical underpinnings of the agency theory were largely developed from the classical thesis, “The Modern Corporation and Private Property” by Berle and Means (1932) which describe the fundamental agency problem in modern firms where there is a separation of ownership and control. This separation of ownership and control may result in the divergence from the corporate objective of maximising shareholder wealth because managers (agents) have the opportunity to act in their own self-interest rather than the interests of shareholders (Lawton, 1996 and 2002). The principal-agent problem is the key issue of corporate governance. The agency relationship is a contract in which one or more persons (the principal/s) engage another person (the agent) to take actions on behalf of the principal(s). This engagement involves the delegation of some decision-making authority to the agent. As a result of the conflicts and congruencies between external providers of capital (principals) and the manager of the firm (agents) and also between large (both internal and external) and small shareholders, Shleifer and Vishny (1997) suggests that the concentration levels of ownership is an important factor in the monitoring of managers by shareholders. The theory also assumes that each of the players (whether principal or agent) will attempt to maximise their own wealth through either self-interestedness or opportunism (Djankov et al, 2008). Opportunism is seen

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9The corporate governance debate is often polarized between supporters of the shareholder model (Contractarians/Neoclassics) and those of the stakeholder model (Communitarians/Networkers) raising concerns about the credibility and validity of such a dichotomised approach.
as a deliberate hidden operation of the agent based on asymmetrical information to achieve personal benefit at the expense of other parties to the contract (Fan et al, 2007).

The position by Gomez-Meija et al (2007) makes explicit assumption of self-interestedness of organisational actors, which may not necessarily reflect opportunism. In this context, opportunism such as the abuse of depositor’s funds by bank managers or insider loans is viewed as an adaptation of one’s actions to circumstances in order to further one’s immediate interest, without regard to principles or consequences. According to Jensen and Meckling (1976), since the interests of the agents and principals are often different, there are some costs connected with the relationship which need to be spent in order to limit the ‘effort aversion’ by managers. The expenses (‘agency costs’) are incurred as principals/owners ensure that agents/managers act in their principals interests (Jensen and Meckling, 1976). The agency costs include monitoring expenditure by the principal such as auditing, budgeting, control and compensation systems, bonding expenditure by the agent and residual loss due to divergence of interests between the principal and the agent. The level of the costs will depend on the ability of the principal to find an appropriate solution to reducing information asymmetries through measuring managerial performance, determining effective incentives, as well as implementing rules and regulations to limit unwanted behaviour or moral hazard (Faccio and Stolin, 2006, Gomez-Meija et al. 2007). Whilst achieving zero agency costs is practically impossible, as the marginal costs of doing so will eventually be higher than the accompanying benefits of perfect alignment (Jensen et al. 1976), monitoring and incentives intends to minimize them (Shapiro 2005). In this regard, the separation of ownership and control in a firm can be viewed as a result of “efficient form of economic organization” (Fama, 1980; Leeladhar, 2004).

One of the conditions which cause the occurrence of the agency problem in firms is information asymmetry. By virtue of residual control of the company, managers often have better information about the firm compared to other stakeholders. The consequence of this is that management often end up with significant influence over how to allocate investor funds. Dispersed shareholders may not have the capacity or ability to access information relating to mismanagement or fraud by managers (Mwiti, 2003). The expropriation of funds by managers can take place in various ways, including managers overpaying themselves, tunnelling and insider trading for self-enrichment, engaging in unprofitable but power enhancing projects or staying on the job even though they are no longer competent (Dyck, 2001).
The nature of ownership of firms in Anglo countries such as US, Canada, UK and Australia has further complicated the principal-agency problem. In these countries, institutional investors own the majority of shares in most of the largest publicly traded firms, unlike in continental Europe and Japan. The problem with institutional ownership is that their investment managers are fiduciary agents of the beneficial owners which create the problem of agents representing agents (Jensen & Meckling (1976). In summary, the agency theory is based on the primacy of shareholder value and assumes that human behaviour is opportunistic and self-serving. As a consequence, the agency theory predicts that governance mechanisms are important to put disciplinary effects on managerial behaviour and ensure that managers act in the best interests of shareholders. One important assumption of the agency theory is that firms are widely held, with dispersed shareholding (Ridley-Duff, 2007). However, this is not the case in developing countries and is also not the reality in developed countries (La Porta et al, 1998; Tricker, 2012).

Thus, the theory is based on the primacy of shareholder value and assumes that human behaviour is opportunistic and self-serving. By virtue of residual control of the company, managers often have better information about the firm compared to other stakeholders. The consequence of this is that management often end up with significant influence over how to allocate investor funds. Dispersed shareholders may not have the capacity or ability to access information relating to mismanagement or fraud by managers (Mwiti, 2003). The expropriation of funds by managers can take place in various ways, including managers overpaying themselves, tunnelling and insider trading for self-enrichment, engaging in unprofitable but power enhancing projects or staying on the job even though they are no longer competent (Dyck, 2001). This implies that the actions of directors, acting as agents of shareholders, must be checked to ensure that they are in the best interests of the shareholders. Thus, the agency theory predicts that governance mechanisms are important to put disciplinary effects on managerial behaviour and ensure that managers act in the best interests of shareholders.

However, the agency theory and its assumption of self-interestedness has been criticised for being too narrow in its analytical focus since shareholders are not the only ones who make investments in a corporation (Vives, 2000; Arun and Turner, 2003). There are other different resource providers with a potential to affect the economic performance of a firm. The theory ignores on-going

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10 In 1994, institutional Investors, such as pension and mutual funds collectively owned more than 57 percent of the top US 1,000 firms (Hawley and Williams 1996).

11 Though the theory opines that people are self-interested rather than altruistic and cannot be trusted to act in the best interests of others, others argue that people seek to maximize their own utility. The agency theory presents the relationship between directors and shareholders as a contract (Adams, 2002).
interaction between choices made and the context in which they are embedded (Muller, 1995). He described it as a static corporate governance analysis. However, a dynamic thinking of the corporate governance mind-set should encourage the multiplicity of corporate governance reality and pluralist claims in theorising and analysis based on the observation that one size cannot fit all (Letza and Sun, 2002). For example, in the analysis of corporate governance in banks, it has been argued that the unique nature of banks requires a broader stakeholder view, which encapsulates shareholders, regulators and depositors (Arun, 2004 and Caprio, 2003). Thus, a more holistic view of corporate governance systems that is embedded in larger institutional, legal frameworks and stakeholders are becoming prominent (Davis and Marquis, 2005).

2.2.2 Stakeholders Model

This model is regarded as the most fundamental challenge to the principal-agent model since it emphasizes that the purpose of firm should be defined broader than the mere maximization of shareholder welfare. Blair suggests that stakeholders, such as employees, have a residual risk in the firm and therefore should have a more important governance role. Thus, corporate governance should refer to the design of institutions to make managers internalize all stakeholders’ welfare (Vives, 2000). Other parties, who have interests in the firm’s long-term success, should also be taken into account when a firm’s objective function is defined. These stakeholders include employees, suppliers and customers. Supporters of this model believe that this stakeholder approach is more equitable and socially efficient (Keasey et al., 1997; Philip and Freeman, 2003).

In this regard, the goal of the directors and management should be made to maximise total wealth creation while aligning the interests of critical stakeholders with that of shareholders (Blair, 1995). The stakeholder model views corporate governance as important in encouraging co-operation amongst stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises (OECD, 1999). Freeman (1984) who is often credited with the development of the stakeholder theory defines stakeholders as those individuals whose support is essential for the continuation of the firm’s existence.

12 The Cadbury Report (1992) also suggests that while the Director’s Report is addressed to the shareholders, it is also important to a wider audience including employees.

13 The model also holds that corporations should be socially responsible institutions managed in the interests of the public. In this regard, the goal of the directors and management should be to maximise total wealth creation while aligning the interests of critical stakeholders with that of shareholders (Blair, 1995).
In terms of economic relations, firms face situations described in the well-known Game theory, i.e. cooperative games or prisoner’s dilemma. The essence of the theory is that the outcome may not only depend on the choices made by one person, but also on the strategies selected by other participating parties (Walker1a et al., 2002). Game theory concludes that full-cooperation maximizes the participants’ joint payoffs but concedes that cheating remains the dominant strategy in a one-shot game. Advocates of this model believe that ethical treatment of stakeholders will benefit the firm because trust relationships are built with stakeholders. Therefore, in order to achieve the maximum efficiency in the costs of social association the long-term contractual associations between a firm and its stakeholders are necessary (keasey et al., 1997). Thus, a firm’s contracts with its stakeholders involve co-specialized investments, which generate “quasi-rent.” In order to prevent participants from attempting to increase their shares, mechanisms needs to be devised to overcome such problem.

When analysing corporate governance of banks, the stakeholder approach is often projected as the appropriate theoretical framework since banks have other critical stakeholders such as depositors and regulators in addition to the shareholders (Macey and O'hara, 2003). However, one of the major criticism of the stakeholder model has been that it is difficult, if not impossible, to ensure that these wider objectives are fulfilled. The broad nature of the stakeholder theory has also been subject to a lot of criticisms. Sundaram and Inkpen, (2004) and Sternberg (1997) have argued that the stakeholder theory replaces the accountability of business to shareholders, with accountability to everyone and therefore to no one. Sternberg (1997) also argues that the stakeholder theory is incompatible with corporate governance, since it denies that corporations should be accountable to their shareholders, and as a result, it has no common and effective standard against which corporate agents can be judged. Jawahar and McLaughlin (2001) have also cautioned that many proposals of the stakeholder theory rely on variables which have been mixed and linked with a set of stake holder related performance variables, without any theoretical linkage. Thus, the approach may not able to be developed into an effective and testable theory.

From the discussions so far, the two models have their own perceived causes of corporate governance problems and solutions thereto. The principal-agent model believes the agency problems caused by the separation of ownership and control is the reason behind corporate governance problems. The stakeholder model blames narrowly defined corporate objective as the cause for problems. However, the researcher did not consider the “whose interest the company should be run” as the pinnacle of corporate governance, rather, “how efficient the company can be
run in the interest of the participating or interested parties”\(^{14}\). With interested parties not limited to the owners and managers, extended agency perspective appeared to have offered a better deterministic approach to understand corporate governance of banks.

2.3 Combining the traditional agency theory with the Institutional theory

The one size fits all Anglo-Saxon theoretical approach to corporate governance has been criticized as ignoring the continuous and on-going interaction between choices made and the context in which they are embedded (Muller, 1995; John et al., 2008). Based on this approach, shareholding or stakeholding is pushed as a true representation of what seems to be an optimal and universal reality. However, a progressive way\(^{15}\) of thinking encourages the multiplicity of corporate governance reality and pluralist claims in theorising and analysis based on the observation that one size cannot fit all (see 2.2.3).

There are several reasons why this framework was adopted for this study. First, most studies analysing the corporate governance of banks have highlighted the limitations of the ‘traditional’ agency theory based on its focus on the primacy of shareholder value at the expense of other stakeholders such as depositors and regulators (Adam and Mehran, 2003; Arun and Turner, 2004, 2009). As discussed already, besides agency problems between shareholders and managers, agency problems in banks can also be experienced in two other areas. Agency problems can exist between managers and other stakeholders due to differences in preferences and also between bank owners and depositors (discussed above). A generalised agency theory would be able to capture all three types of agency problems.

Meanwhile, previous studies agree on the usefulness of institutional theory in extending models within an agency theoretical framework due to the contextual influences to assist in explaining ‘key constructs’ such as the nature of self-interest and the oversight responsibility available to principals (Aguilera and Jackson, 2003). Institutional arrangements such as organisational and national culture or regulatory frameworks might have an impact on how the agency problem is construed. Williamson (1998) has offered frameworks regarding the role of institutions in corporate governance that are based in a rational actor model of corporate governance. In this regard, self-interested individuals, as envisaged by the agency theory, might prefer to cooperate rather than be

\(^{14}\) A healthy company should be in the interest of both the financiers and society at large (Ameza, 2005).

\(^{15}\) Continuous action, operations, or series of changes taking place’ rather than static phenomenon exhibited by the traditional theory.
opportunist (Nanka-Bruce, 2009, 2011). This will lead to conformity by the actors to basic principles and consequences which serve to link the agency theory with the institutional theory (Gomez-Mejia et al, 2005). However, the unique challenges within developing country context, such as weak legal and regulatory systems, corruption and government interference in banks, require a contextualised discussion on how these factors affect corporate governance in developing countries. The next section discusses the importance of the institutional approach as a supplementary theory to this analysis.

2.3.1 The Institutional Perspective

Though definitions vary, institutions comprise norms, regulations, and laws that establish the rules of the game or condition and or modify the behaviour of individuals and groups making their actions more predictable to others (Shirley, 2005). They do so through formal rules that include laws, contracts and the like, as well as through informal means such as social norms and conventions that evolve over time. It is worth indicating here that, the use of institution is quite different to that where it is taken as synonymous with organization. Institutions according to North (2000) are humanly derived constraints that structure human interaction including formal constraints such as constitutions and laws and informal constraints, such as norms, conventions and self-imposed codes of conduct. Institutions are the rules of the game in a society, while organizations are the players. Institutions can therefore be taken as being constitution, and sets the rules by which the game is played.

In addition to the brief insights on institutions, two other perspectives relevant to the research are reviewed subsequently. The first, explored, is the property rights approach. This approach points out one crucial difference between private and public firms. The practical difficulties in transferring ownership rights among individuals in the public sector and the relative ease of such transactions with private assets which includes, the ability of owners (citizens) to monitor their agents (elected officials’ and bureaucrats’) behaviour. Alchian (1965) predicted that, government managers will not organize the inputs under their direction in such a way, as to maximize the wealth of the tentative owners, the general citizenry. This presupposes that, state owned enterprises (SOEs) will be less efficient, their management will enjoy “quieter lives” and because of this the public will give them lower levels of discretion than their colleagues in private firms (Durven and Fauver, 2009).

Alchian and Demestz (1972) argue that private ownership provides undisputed property rights and this, in turn, ensures that the firm is run more efficiently than SOEs, none of whose stakeholders have a clear right over its assets and profits. Thus, managers of a privately owned firm would always
be induced to perform efficiently because they would otherwise become vulnerable to takeovers, leading to loss of control for the incumbent management (Fama, 1980). Management of SOEs, on the other hand, would be immune from such discipline, and hence may be more interested in furthering their own interests rather than adding to the efficiency and profitability of these firms (Vickers and Yarrow, 1994). Hart, et al., (1997) argue that, indeed, the management of SOEs has weak incentives to take decisions that lead to cost reduction or innovation, implying, therefore, that private ownership of productive assets is more desirable.

The second one considered is “Public Choice approach” that concentrates on political coalitions and their effect on input usage, reward and/or product characteristics. The approach emphasizes the importance of the political system as a set of institutional arrangements that shape the behaviour of politicians and interest groups by providing incentives and constrains (Laffont, 2001). However, Gropp and Köhler (2010) argue that government officials maximize their own utility and government ownership and management of firms can lead to persistence of inefficiencies. This argument seems especially valid for the case of enterprises with state ownership. Given the relative loose monitoring of SOEs by the political review authorities, a rational position for the latter given the gain-sharing may result in poor monitoring, managers will likely indulge their taste for security more than those in private firms. Public choice analysts believe that simply changing decision-makers will not make significant lasting alterations to government behaviour (Rosen, 2008). Thus, in a partially privatised firm, the residual income is of an economic magnitude set arbitrarily by the bureaucracy (Williamson, 1998), and the firm may not have rights to dispose of their assets.

It presupposes that, bureaucracy exercises residual-income rights and control rights on behalf of the whole people; there is no incentive for it to act in their interests (Megginson and Netter, 2001). On the contrary, there was room for bureaucrats, who are agent-owners of state firms, to serve their own interests without bearing the costs of such behaviour (Fan et al, 2007). On the other hand, private or privatised banks find themselves in the hands of the freed managers that may gamble with depositors’ money. It is important that institutions are designed to restrain the public and private actors that may pursue their own selfish agenda. In so doing, investors and depositors can reasonably be sure that management decisions will be in their interest.

2.3.1.1 Isomorphism

It is assumed above, that actors are selfish, utility maximising individuals such as the freed managers who pursue self-interests and build economic institutions to solve the problems such as reducing transaction costs, and managing the principal agent relations is closer to the generalised agency
theory assumptions of self-interestedness (see 2.21 and 2.2.2). It has been argued that the most relevant and promising corporate governance research seeks to understand the institutional context in which it occurs, in contrast to the traditional agency or transaction cost perspective (Dharwadkar et al., 2000; Macher and Richman, 2008). Extending the generalised agency theory with institutionalism is therefore important in understanding the formal and informal rules and context in which the agency theory is analysed.

A critical assumption within the institutional theory is that all social actors are seeking legitimacy, and or reinventing legitimacy norms within the institutional environment (North, 1990). This constraining mechanism that forces one unit in a population to resemble other units that face the same environmental conditions causing similarity of structure, thought, and action is referred to as isomorphism (DiMaggio and Powell, 1983). Three types of isomorphism have been identified in sociology by these authors in their pioneering study. They are coercive, mimetic and normative isomorphism. The first two of these theoretical constructs are relevant to the analysis made in this thesis.

i. **Coercive Isomorphism**

One of the major influencers of adherence to effective corporate governance within a national economy will be the presence of institutions that can force and/or coerce organizations into transparent and fair governance practices (Radaelli, 2000). The primary motivation is to conform to the demands made by powerful constituents and stems from a desire for legitimacy as reflected in the political influences exerted by other organizations. These influences can be formal or informal and may include persuasion as well as invitations to join in collusion. If the influencing group has sufficient power, change may be mandated\(^\text{16}\).

This pressure is often made and enforced by the state and public authorities and firms are punished for non-performance. Based on this assumption, one of the major influences of adherence to effective corporate governance will be the presence of institutions that can force or coerce organisations into transparent and fair governance practices (Radaelli, 2005; Yamak and Süer, 2005). Having a well-defined regulatory and legal framework with good enforcement standards can be thought of as a way to force economic actors to observe the rules and not engage in questionable behaviour. In the absence of a strong legal and regulatory environment, property rights will suffer, minority shareholders will be abused and moral hazards for owner managers will increase (La Porta

\(^{16}\) Change is imposed by an external source such as a powerful constituent (e.g., customer, supplier, and competitor), government regulation, certification body, politically powerful referent groups, or a powerful stakeholder.
et al., 2000). In the context of this study, government deregulation and divestiture in banks, made the role of regulatory agents and rule enforcement very crucial to prevent expropriation of the minority shareholders and/or compel the new actors to conduct their operations in a responsible manner.

Arun (2004) and Glaeser et al., (2004) argued that, success of the reform depends on the genuine efforts of government to ensure good governance. For example, government and its agencies make the nation’s rules, in the form of laws and regulations, and may enforce those same rules with varying degrees of success\textsuperscript{17}. An institutional theory perspective therefore suggests banks may pay more attention to their CG practices because of the potential and practical repercussion they face from the legal and regulatory agents. Under such environment, banks may show that they are trying to improve their governance practices. Thus, board and management reforms may be motivated not only by economic motives but to some extent institutional pressures. In these regards, the two theories can play complementary roles in shaping the behaviour of internal and external interest groups by providing incentives and constraints.

ii. Mimetic Isomorphism

Mimetic isomorphism refers to the tendency of social actors to imitate other social actors that are viewed as successful and legitimate\textsuperscript{18}. This occurs when social actors imitate other social actors, which are viewed as successful and legitimate. Imitation may occur for competitive reasons (Wallsten, 2001) or in ambiguous and uncertain situations, where organisational changes are imitated to obtain legitimacy (Stryker, 2000).

Imitation among members of a social system can occur for competitive reasons (Scott, 2001). Competitive imitation pressures exist when firms learn from each other how to operate more efficiently and/or effectively or when they mimic each other so as to minimize the risk of losing a customer or a source of supply (Guler, et al, 2002). One area where imitation might take place is in the area of corporate governance practices, especially with respect to situations where legitimacy pressures are paramount (Aguilera and Cuervo-Cazurra, 2009). In sum, the greater the imported competition, the greater the pressures to imitate successful firms who might be practicing better corporate governance. This phenomenon can occur when one organisation perceives a need to

\textsuperscript{17}If the government is democratically accountable to the general public, one would expect better corporate governance because government officials will lose their jobs and/or be punished for not monitoring business adequately (Caddy, 2001).

\textsuperscript{18}It is defined like a response to the uncertainty. The uncertainty on the goals or the harmful behaviours encourages the imitation by the adoption of the models seemingly most legitimate or most successful.
establish or revise their corporate governance structures based on international best practice. If there are no established criteria within the organizational field or there is no powerful constituent(s) forcing the adoption of specific criteria, a firm is likely undertake to identify a “successful” model institution and to adopt, or adapt, its promotion and tenure criteria (Kostova et al., 2008). Mimetic isomorphism therefore is particularly insidious in that both the borrower organization and the model organization are likely to erroneously perceive an increase in corporate governance quality. The borrower lacks objective measures to suggest otherwise (i.e., uncertainty abounds), and the model organization’s prestige is enhanced and its organization flattered. For example, the local banks of Ghana, maybe forced to copy the so-called international ‘best practice’ used by the foreign organisations without re-inventing the wheels. Similarly, the privatised banks and or managers of banks may adopt what foreign banks were doing in terms of corporate governance.

In summary, the quality of a country’s legal traditions and institutions plays an important role in the financial development and ownership patterns of firms through enforcement of contracts, and property rights. Corporate governance according to Durnev and Kim (2005) has more value in weaker legal and institutional regimes. When a country’s investor protection laws are good, it reduces expropriation of minority investors (Doidge et al., 2009; La Porta et al 1999). Extending the generalised agency theory with the institutional perspectives is intended to analyse the privatisation and corporate governance of banks within the Ghanaian institutional context. Strong regulation and supervision of banks is important in countries with weak institutional mechanisms particularly in developing countries (Arun and Turner, 2002 and 2009; Boubakri et al, 2005). These include weaknesses such as poor disclosure and poor quality of accountancy data provided by banks in their financial results. Observations suggest that in many cases, standard accounting and auditing procedures are not rigorously applied and there was wilful misrepresentation of the financial position of banks (Heath and Boatright, 2010; Llewellyn, 1999). In addition, differences in country-level governance should be included. The country-level governance mechanisms include a country’s laws, its culture and norms, and the institutions that enforce the laws (Aggarwal et al., 2011; La Porta et al., 1998; 2002; Yamak and Süer, 2005). La Porta et al., (1998) show that the legal protection of shareholder rights differs around the world. They also find that the quality of law enforcement is very weak in countries with low level of per capita income. These authors report that companies with good governance practices operating in stringent legal environments show a valuation discount relative to similar companies operating in flexible legal environments. Thus, law and the quality of its enforcement are likely to influence the monitoring role played by the market. Consequently, we
expect post-privatisation corporate governance practices to be higher in countries which write laws that protect shareholder rights and with a legal system that efficiently enforces these laws.

2.4 The concept of Privatisation

The concept of privatization is not new, it appeared in the writing of Adam Smith as early as 1762. As Jackson (2001) concludes “No single definition is right or wrong, each must be judged in terms of its usefulness for a specific purpose.” To sum up, the categories of disputes range from very narrow and strict terms to broader and more inclusive terms. “Privatization can be defined in narrow terms reserving the concept for the sale of public sector assets; alternatively, it can be widened to incorporate a number of associated policies” Clifton et al. (2006). In a strict sense, privatization has to be the transfer of majority of ownership to the private sector. Partial divestiture, especially when the state still holds majority shares, is not categorized as privatization. For example, according to Kikeri and Nellis (2004), privatisation is “a transfer of ownership such that a majority of the shares or equity in an enterprise passes from the state or public ownership into private hands”.

Broader definitions include the transfer of ownership and/or control of state-owned organizations to private investors, either full or partial in terms of the amount of equity sold to private investors only if the ownership has been transferred from public to private hands (Cowan, 1990; Megginson and Netter, 2001). They argue that, proportion divested may leave the government with either majority or minority shares, but the practical effect is to put the current operation of the firm or service in the hands of private managers. The main types of non-divestiture privatization options include organizational, financial and operational restructuring, together with commercialisation and corporatisation, the privatisation of management and contracting out.

2.4.1 Commercialization, Restructuring, corporatisation and Privatisation

Commercialization is closely related to the change of market environment and restructuring. It is the introduction of commercial principles and objectives into the management and operations of SOEs. Part of this procedure may involve removing government subsidies; applying user charges; commercial objectives and commercial accounting standards and turning SOEs into a commercially

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19 There are so many definitions of privatization, differing from every book or paper (Cowan, 1990; Hague, 2001). They simulate with each other while embracing few characteristics according to the different context and goals.
20 Words such as “Sale of at least 50 percent of the shares”, “transfer of majority ownership” and “the predominant share in ownership of assets on transfer” are used in the definition of Beesley & Littlechild (1994), Kikeri and Nellis (2004) etc.
viable and profit-making enterprise exposed to market disciplines. The internal measures in commercialization are included in the process of restructuring. Restructuring involves making changes in the SOE allowing it to operate more efficiently, such as labour-shedding, product mix changes, the diversion of sales to advance economies, and instituting marketing improvements (Havrylyshyn and McGettingan, 2000).

Restructuring is a set of non-marginal changes in the structure of an existing firm’s output mix, including the closure of some activities, which in turn requires significant non-marginal changes in resource use. The purpose of restructuring is both to save resources and to re-deploy resources to more efficient use. In market-oriented economies, such restructuring is usually motivated by an attempt to restore or regain competitiveness and enhance long-term shareholder value in response to a radical change in the business environment or to a gradual erosion of competitiveness. To promote the transition from command to market economies, restructuring requires profit orientation as the overriding objective of the enterprise. By definition, restructuring is a process of radical adjustment that will break some vested interests.21

Restructuring includes organizational and labour restructuring, financial restructuring and operational restructuring. In the dispute on restructuring and privatization, one school of thoughts argues that restructuring, rather than privatization, should be put at the centre of the analysis of enterprise sector reform. The other school trusts that restructuring cannot substitute privatization. The former argument stems from the acknowledgment that the SOEs’ problem is not necessarily related to their ownership, it can be overcome by the change of objectives, organizational cultures and control systems (Wei and Kabir, 2002). They compare the early “defensive” restructuring by both SOEs and privatized. They include such measures as labour shedding and wage restraint as “defensive” enterprises, evidence shows that privatized firms have done better than SOEs in maintaining an improved performance (Ibid). Ghana launched a gradual restructuring program between 1991 and 1994 to revive its banking sector (see section 4.4). Measures include top management, financial and internal control restructuring to improve performance in the state owned banks (SOBs). Nonetheless, all the SOBs became insolvent, with three out of the eight banks liquidated. It proved that the first school of thought did not work in this case.

Corporatisation goes further than commercialization and restructuring in the sense that corporatisation means the creation of a normal limited liability company incorporated under the corporation law, and the transfer of the business conducted by the government to that company

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21 Restructuring encompasses both survival-driven cost-side changes aimed at reducing existing inefficiencies and growth-oriented revenue-side changes to re-orient the enterprise’s processes and products to current market requirements and thereby achieve improvements in performance over the longer run.
(Nor-Aziah and Scapens, 2007). In Ghana, few SOEs were corporatised including Cooperative bank under the FINSAP. The bank was converted into a legally and economically independent legal person, while the government retains its ownership (Appiah-Kubi, 2001; Kikeri and Nellis, 2004). Commercialization converts SOBs into a separate entity under statutory law, while corporatisation converted SOBs into a joint stock company (for large enterprises) or a limited liability company under company legislation. Following corporatisation, privatization is treated as going from non-divestiture to divestiture options.

Boubakri and Cosset (2002) argues: “Along with such transfers (privatization) come a change in management and even a radical restructuring of a firm’s deliberative or executive authority. In this latter case, the change in ownership goes hand in hand with a shift in the manner of corporate governance”. The process of privatization is a pressure as well as a chance for the firm to further improve their corporate governance. Based on the assumption that different governance structure leads to different performance, ceteris paribus, the interest here is to further identify the effects privatization poses on corporate governance and how it works. The core of the contention may still be whether to transfer the ownership, that is to say, if the provisional system of corporate governance can be achieved, why will ‘full privatization’ still be needed? Public ownership brings with it attention to certain classes of government goals and practices. E.g. salaries for top executives will be very low by industry standards. Politics will inevitably play some role in the operation of the enterprise. “Retaining ownership of all these businesses (SOEs) would entail the on-going risk that a large portion of New Zealand’s assets would underperform”22. Privatization changes the ownership, and thus changes the structure of incentives and the criteria used to judge success.

The State-owned Enterprise Reform Programme was launched in 1988, as part of Ghana’s overall Economic Recovery Programme prior to the FINSAP. The SOE Reform Programme contains measures to improve the performance of enterprises that remain state-owned, as well as the rationalization of the SOEs by means of a divestiture program.23 Between 1995 and 1998, the Government moved to a new phase of the divestiture process covering major enterprises in the transport, energy, and banking sectors (Appiah-Kubi, 2001).

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22 See Appiah-Kubi (2001)
23 Between 1987 and 1999, Ghana’s privatization programme generated revenues for the government equivalent to about 14 per cent of GDP from a moribund public sector which had previously been dependent on state subventions, and thus succeeded in fulfilling a key role in easing the fiscal crisis and in fostering the Structural Adjustment Programme (Appiah-Kubi, 2001).
2.4.2 Privatisation and corporate governance arrangement

During privatization, ownership is transferred from the state to new owners, thereby creating new agency relationships. Agency theorists argue that new owners must be concerned with managerial perquisite consumption and entrenchment problems (Eisenhardt, 1989; Fama, 1980; Jensen and Meckling, 1976). In response to these problems, new owners must incur agency costs in monitoring the actions of management or must use incentive alignment to ensure goal congruence between principals and agents (Eisenhardt, 1989; Jensen and Meckling, 1976). Corporate governance arrangement functions in three aspects, i.e., how to allocate and use control rights; how to supervise and evaluate the board of directors, the managers and the employees and how to design and carry out incentive system to realize those two goals. Optimal corporate governance gives managers sufficient freedom to manage the enterprises; shareholders cannot intervene too much, but are able to supervise the managers to protect the interest of the shareholders. Based on the conclusion of Erakovic and Wilson (2005), the main corporate governance differences between corporatised and non-corporatised firms are on ownership, control and incentives.

2.4.2.1 Ownership

Divestment of an SOE raises several ownership structure and corporate governance issues. Each ownership structures have its unique ability to reduce traditional agency problems in the weak governance context. Ownership concentration is analysed as an alternative control mechanism in corporate governance. First, ownership concentration can help ease information asymmetries (Williamson, 1975) because it is relatively easy for individual shareholders to coordinate actions and demand information from management teams with which to assess their performance (Berle and Means, 1932). Second, owning a large percentage of stock not only enhances shareholders’ control but also increases their incentives to monitor managers, as the effectiveness of large shareholders is intimately tied to their ability to defend their rights (Shleifer and Vishny, 1997). Third, as developing economies usually have a more volatile economic environment and immature market, ownership concentration is more suitable for Ghana (see 2.5 below). However, State ownership is a renowned example of concentrated control with ineffective legal protection, limited cash flow rights and socially harmful objectives (Shleifer and Vishny, 1997). Xu and Wang (1997) and Wang (2005) argue that, firms’ profitability is either negatively related or not related to the fraction of state shares. On the contrary, Chen (1998) finds just the opposite evidence, SOEs with larger state share fractions performed better than those controlled by the private sector.24 The correlation between the

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24 He suggested it is easier for SOEs to get government’s support.
proportion of state shareholding (the degree of privatization) and the companies' performance is still not clear in previous studies.

It presupposes that concentrated insider or outside ownership minimises the separation between ownership and control and gives insiders potential information advantages which can be exploited for personal benefit at the expense of outside owners (Blasi et al. 1997). This is largely because, the controlling rights are aligned and majority shareholders have the incentive and power to monitor management.25 As a result, higher insider ownership is deemed to be associated with minimum risks to capital structure (Mehran and Mollineaux, 2012). However, controlling shareholders, conditional on the regulatory and legal environment, may exploit their private benefits of control by diverting assets and profits out of the firm (Johnson et al., 2000). Furthermore, large equity owners may stimulate the firm to undertake higher-risk activities since shareholders benefit on the upside, while debt holders share the costs of failure.26

In the context of privatization, the state is categorised as an insider because of its prior ownership of the privatized firm. With a government-owned bank, the severity of the conflict between depositors and managers very much depends upon the credibility of the government (Arun, and Turner, 2004; 2009). Foreign investors can reduce expropriation problems and are less likely to use economic and social expropriation mechanisms. Exceptions notwithstanding, the usual effect of privatization has been to improve efficiency (Megginson and Netter 2001). Foreign investors are likely to be under greater government scrutiny than local firms, and this might discourage foreign investors from disregarding minority shareholder interests through transfer pricing and profit repatriation (Li and Zhang, 2009).

2.4.2.2 Firm Control

Internal control mechanisms include monitoring by BODs and mutual monitoring by top management (Johnson, et al., 1993; Walsh and Seward, 1990). BODs can assist shareholders in evaluating management performance and can control management perquisite consumption and entrenchment by adopting a range of short-term (e.g., by using reward systems) and long-term (e.g., by changing corporate structures) solutions (Gedajlovic and Shapiro, 1998; Zahra and Pearce, 1989). When effective, internal control mechanisms can resolve traditional agency problems. Typically,

25 A study by Abor (2008), suggest that insider shareholders are more concerned with the continued good performance of their firms since they have a greater non-diversifiable risk to debt than outside shareholders and institutional investors who may have a well-diversified portfolio.

26 Referring to blockholders of banks, such as investment funds, Mehran and Mollineaux (2012) argue that “there is no economic framework suggesting that owners of these investment funds should care about safety, soundness, and default-related costs. Why should they be concerned with downside risk?”
effective internal control mechanisms are associated with the German-Japanese model of corporate
governance, where shareholders can actively use BODs to control management and where external
corporate control mechanisms (such as hostile takeovers) are uncommon (Prowse, 1994).

A. Board Composition

By appointing the board of directors\textsuperscript{27}, new shareholders may have an instrument to control
managers and ensure that the firm is run in their interest. According to Fama and Jensen (1983),
boards are the front-line control mechanism for reducing agency problems in modern corporations.
Boards are responsible for corporate leadership; they use their power to hire, fire, and compensate
the top-level decision managers, and monitor important decisions, while leaving day-to-day
operations to the chief executive officer (CEO) and senior executives. Board composition is believed
to be a most important dimension of control structure (Walsh and Seward, 1990; Shan and Xu,
2012).

In the various mixtures of directors, the outside vs. inside directors (e.g., top managers of the firm)
mixture is the most often discussed issue. The most popular argument is the necessity of decreasing
the relative number of inside directors. It is believed insiders are representing their own interests
but not the owners' interest, and since insiders expand their power in a "power vacuum" in
transition economy, the problem incurred can be said as a principal-agent problem. Outside
directors are believed to be not liable to collude with managers to expropriate wealth from residual
claimants, and they have more incentives to carry out their tasks in the interests of the shareholders
to maintain their prestige as independent expertise. Also outside directors can provide a breadth of
knowledge, experience and objectivity to bear upon board decisions (Fama and Jensen, 1983;
Hortsmeyer, 2011). Although the value of the outsider directors' human capital depends primarily
on their performance as internal decision managers in other organisations, they use their
directorships to signal to internal and external markets that they are decision experts (Fama and
Jensen, 1983). However, if internal decision control breaks down and an outside takeover is
activated, the outside directors’ human capital will be devalued substantially.

There are counter arguments of the inside directors’ advantages too. Finegold et al. (2007)
summarize the benefits into four points. First, insiders have valuable specific information and
experience and they are more influential on the management. Second, inside directors provide a
direct communication link between the board and the other organizational members (Wu, 2004).
Third, insiders sit on the board as part of the “passing the baton” process, preparing for future

\textsuperscript{27} Ghana uses the so-called one-tier board, which consists of a mix of outside (non-executive) directors and inside (executive) directors, who are the top executives of the firm.
leadership position transfers (Faleye, 2007). Fourth, insiders are often promoted to the board to provide incentives for their excellent managerial performance.

B) Organisational System

In addition to board changes, executive changes can bring in new management with capacities, skills, and resources that are more suited to the new market environment (Coffee, 1999; D’Souza and Megginson 2000; Nguyen and Nielsen, 2010). Management is a key to a successful business and a change, especially in top management, is often crucial for a new strategic direction to be built and for a new culture to be introduced into the organisation. Researchers (Megginson et al, 2004) find that top executives can substantially alter the success of organisations. Whilst, some (March and March, 1977) argue that manager’s account for little variation in organisational outcomes; some studies such as, Goll et al. (2008) suggest effectiveness of an executive is closely associated with the discretion available to him or her, provided that there are effective mechanisms to check the agency problem. To rectify the deviation of managers’ behaviour, the organizational mechanism should be changed or “re-organised” (Aharony et al., 2012). According to them, an organizational mechanism is a kind of playing rule concerning the formation of the managers, the awarding of control rights, the evaluation and supervision to stimulate and constrain managerial behaviour.

2.4.2.3 Incentive Scheme

Besides the BOD monitoring, incentives can be similarly employed to limit moral hazard on the part of the manager. Privatization is also expected to change the directors’ monitoring of managers’ behaviour. Although corporate boards are typically not required by law to institute formal management control over the MD’s performance, some authors agree that a formal process for evaluating managers’ performance is a fundamental feature of corporate governance (Tosi and Gomez-Mejia, 1994). Agency theory stresses that privatization will promote a board’s independence in overseeing the MD and adopting a formal performance evaluation process (Young et al., 2000), because there will emerge incentive management during privatisation ‘core’ shareholders who hold a sufficiently high proportion of a company’s shares to justify their combining ownership with some degree of board control, in contrast to the dispersed minority shareholders of SOEs (Shleifer and Vishny, 1986).
A) Compensation Mechanisms

Compensation mechanism is a kind of revenue arrangement using salary, allowance and bonus to stimulate and constrain managerial behaviour; the essence is the degree to which the managers are involved in residual claims (Wang, 1998). By establishing private ownership, privatization helps fix the incentives of the managers and other stakeholders. For the managers, monetary incentives after privatization may become stronger than rent seeking because of significant increase in both compensation and pay-performance sensitivity of managers (Dyck, 1999; Cuevo and Villalonga, 2000). Unlike their counterparts in SOEs, managers in privatized firms do face the threat of dismissal if they underperform (Muravyev, 2001; Firth et al, 2006).

Empirical work suggests privatisation leads to the need for incentive-based compensation for executives (Palia, 2001). As a result, banks are turning toward the use of equity based remunerations and accounting based remunerations to align shareholder and executive interests and bank compensation structures are becoming more like those at non-banks. Deregulation allowed banks to expand their opportunity sets and led to unprecedented corporate control activity. This shift in industry structure suggests that banks now face environments more similar to non-banks and thus increased agency problems (Claessens, 2006). Thus, as the financial industry is deregulated, banks turn toward the use of incentive based remuneration to align shareholder and professional managers’ (executive and non-executive) interests and bank compensation structures can become more like other firms (DeYoung et al, 2013).

B. Top Management Evaluation

The World Bank (1997) emphasizes that incentives have to be redefined so as to bring them into line with the principal’s objectives. Mako and Zhang (2003) argue that, "incentive vacuum" exists for the agents of the former SOEs because managers are government officials, and evaluation standards are more efficiency. Second, because of the incomplete market system and immature market mechanism, managers neither get the pressure from the stock’s price in the market, nor worry about possible takeovers. Third, because of the multi-layered principal-agent relationship, the ultimate owner hardly has effective incentives on managers because of the information asymmetry and the possible dual collusion (Ayogu and Fosu, 2002). However, the accountability and transparency of the compensation mechanism in Ghana’s listed companies have experienced some improvement, despite thir minimal impact on organizational mechanism (Mensah, 2002).
2.5 Corporate Governance in developing economies

The rise of governance in developing countries is due to poor economic performance and the resultant high international debt levels, necessitating the intervention of international financial bodies such as the World Bank and advocating increased focus on governance issues as part of general reforms (Barth and Levine, 2008). Thus, the World Bank, the IMF and the IFC have worked to encourage the improvement of governance levels in developing economies after long unsuccessful economic recovery programmes (Tsamenyi and Uddin, 2009). However, transforming the public to private monopoly may actually render society worse off in such an environment; while the benefits are privatised; the costs are imposed on society. Efficient contracting between managers, shareholders and creditors along with markets for corporate control is vital for realising the expected benefits from privatisation. Improved corporate governance systems can serve as an incentive for foreign investment in developing economies (Okpara, 2011).

La Porta et al. (1999) suggest that although the agency problem in developed countries is between managers and shareholders, in developing countries this exists between majority and minority shareholders. Tsamenyi and Enninful-Adu (2007) agrees but, argues that conflict between managers and shareholders does arise in developing countries, but ill-functioning capital markets, information asymmetry and lack of adequate infrastructure is much of a problem. Furthermore, Oman (2001) stressed that, special interest groups are active, government ownership of banks is dominant, the effect of market forces is below par, prudential regulation and supervision is largely absent or ineffective, and legal institutional support in most of these countries are weak. Nevertheless, the best aspect of the privatisation process of the 1990s in Ghana was the design of a set of pre-FINSAP regulatory framework in 1989. It is argued that establishing a regulatory framework before privatisation improves the outcomes of the process but a comprehensive set of corporate governance mechanisms guarantees successful operation for the long term as stated by Dyck (2001).

Unless developing countries embrace a corporate governance perspective, privatisation is unlikely to provide the benefits of improved performance with accountability. Privatisation by itself cannot sufficiently strengthen the institutions required for nurturing its potential benefits. It ought to be

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28 Over 2,700 public enterprises had been divested in Africa by 1997 as part of the structural adjustment programmes embarked on by many African countries.

29 Ayogu and Fosu (2002) also suggest that privatisation through capital markets can help diversify ownership as well as enhance transparency and efficiency in pricing and governance through markets for corporate control. Thus, the thinness of stock markets in Africa requires remediying.
accompanied by special efforts at institution building, such as stronger legal and regulatory structures (see 2.4.2.1 above).

2.6 Importance of Corporate Governance of Banks

Unlike other organisations, banks are different from non-financial firms in several dimensions. First, their failure may have more serious consequences due to their unique position in financial intermediation and the payment system. Thus excessive risk-taking by banks can create significant negative externalities and systemic risk which is one of the reasons that the financial sector is more heavily regulated than non-financial sectors (Flannery, 1998). As pointed out by Laeven (2012), the owners of banks do not internalize the risks that the failure of their bank will pose on the rest of the financial system, even though such systemic risk can pose significant threats to the broader economy.\(^30\) Paradoxically, their systemic importance creates incentives for large financial firms to take even more risk. As a consequence, failure of a large bank is supposedly more feared by supervisors than the failure of a small bank, since the former is more likely to result in macroeconomic externalities (Beck et al, 2003: Boyd et al, 2009). Banks that are ‘too big to fail’ receive a de facto government guarantee, which will be reflected in their riskiness as perceived by creditors.\(^31\)

Second, banks rely on depositors for their funding and this creates an incentive to take too many risks. This is because high-risk investments may bring in more revenues that accrue to the intermediary, while if it fails a substantial part of the costs will be borne by the depositors. As pointed out by Shleifer and Vishny (1997), debtholders have power as their loans typically have a short maturity so that borrowers (i.e., the banks) have to come back at regular, short intervals for more funds. However, as banks have diffuse debt in the form of many small depositors debt renegotiations are difficult, weakening this mechanism (Laeven, 2012). In addition, depositors do not have good incentives to monitor bank managers due to high information asymmetry and coordination costs (Demirgüç-Kunt and Detragiache, 2002).\(^32\) Depositors are therefore generally protected by some deposit-insurance system, but this provides the intermediary with an even stronger incentive for risky behavior (Boehme et al, 2009; Merton, 1977). As depositors are protected, they are less sensitive to bank risk than other investors (i.e., uninsured creditors) and

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\(^{30}\) see Laeven and Valencia (2008).

\(^{31}\) There is some evidence for the ‘too big to fail’ point of view (De Haan and Poghosyan, 2012). However banks may also be ‘too big to be rescued’.

\(^{32}\) Asymmetries are larger with financial institutions (Furfine, 2001), mainly due to higher opacity of banks’ assets and to banks’ ability to quickly change the risk profile of their investments.
hence do not demand adequate compensation for bank risktaking which makes debt a cheap source of funds and biases banks toward it (Mehran et al., 2011). Financial firms are therefore much more leveraged than non-financial firms (Acharya et al., 2009). According to Laeven (2012), the typical leverage ratio of a bank is about 10, which is much higher than that of most non-financial firms.

According to agency theory, managers prefer less risk than desired by shareholders because they enjoy private benefits of control and also because of their non-diversifiable human capital investment in the companies they manage (Faleye and Krishnan, 2010). In addition, managers can lose their invested wealth in the firm if it goes bankrupt (Devriese et al., 2004). Hence, a board seeking to maximize shareholder wealth would encourage greater risk-taking, thereby also increasing the chance of failure. These agency problems of banks are exacerbated by the presence of government guarantees and deposit insurance, which distort bankers’ incentives and encourage risk-taking. In addition, the special role of banks and the negative externalities of their failure make banks’ agency problems costlier for the economy at large.

Thus, within the extended agency theory, there are also agency problems between bank owners and depositors because a bank has superior information than its depositors about its own financial condition and the nature of its deposit contracts. Corporate governance problems can arise because management have different risk preferences from other stakeholders such as the central bank,33 owners or creditors. Problems can also arise because management have limited competence in assessing the risks involved in the decisions they make, although they may still have freedom of action to make the wrong decisions due to inadequate control systems and information asymmetry (Beck et al, 2003; Prowse, 1995).

The principal-agent problem is therefore more acute in banks since managers may have information advantages which give them the opportunity to take self-interested actions by engaging in unobserved, socially costly behaviour or abuse (Alexander and Dhumele, 2001). Moral hazard (or adverse incentives) arises in a variety of principal agent relationships characterised by asymmetric information and can be caused by a number of factors. These include negative real interest rates in the economy which may cause borrowers to choose investments with higher returns when successful but with lower probabilities of success, increasing the risk of speculative behaviour and non-performing loans (Gu, 2001; Stiglitz and Weiss, 1981).

33 Another stakeholder is the regulator. Regulators expect boards to ensure the safety and soundness of the financial institution, an objective that may not necessarily be in the shareholders’ best interest (Adams and Mehran, 2003).
It has been observed in literature that moral hazard is inversely related to bank capital. Owners of poorly capitalized banks have little money of their own to lose from risky investments in the event of a bank failure. As the bank’s capital falls, the incentives on owners to pursue strategies which preserve the solvency of the bank are reduced because once bank owners have enough capital of their own invested, there is greater incentive to invest in more prudent assets (De Meza, 2002). Moral hazard becomes serious when banks lend to ‘related parties’ such as connected directors or managers. Insider lending has been noted as one of the major causes of bank failures across the world (Barth and Laevine, 2006). This is because the incentive for imprudent and fraudulent management increases where all the profits arising from a particular project are internalised. These moral hazards reveal corporate governance weaknesses which can be corrected by strict regulation and supervision by central banks.

2.7 Bank Privatisation and Corporate Governance – The Framework

Privatization or divestment of government stake in banks provides an interesting setting in which to understand corporate governance, because it is a discrete event that often leads to a drastic change in the ownership structure. Nevertheless, the ultimate success of privatization depends on the effectiveness of post privatization corporate governance mechanisms. The literature reviewed in 2.4.2 above distinguishes two types of governance mechanisms: internal and external. Internal mechanisms include, among other things, the ownership structure, the board of directors and managerial reorganisation, while the external mechanisms include the monitoring of capital market and legal institutional system. Shleifer and Vishny (1997) and Denis and McConnell (2003) examine the role of ownership structure and investor protection (internal and external mechanisms, respectively) in providing efficient corporate governance. They find many developing countries lack an established institutional framework for efficient corporate governance. Such deficiencies point to the possibility that internal mechanisms may substitute to external mechanisms in providing efficient governance.

2.7.1 Privatization and Ownership

The shift in ownership and control to private owners accompanying privatization changes the organization’s prevailing incentive structure, with greater emphasis placed on profits and efficiency (Boycko et al., 1996; Shleifer and Vishny, 1997). The shift in incentives resulting from privatization is thus likely to affect the monitoring and management performance of the firm. The effect of
ownership on corporate governance is likely to depend on how control is allocated across types of owners during the privatization process.  

I. State Residual Ownership  
With a state-owned bank (SOBs), the severity of the conflict between depositors and managers depends upon the credibility of the government. This is because, “government ownership of a bank has the potential to alter the strategies and objectives of the bank as well as the internal structure of governance. It is reviewed above that conflict between the government/taxpayers (as owners) and the managers/bureaucrats who control the bank is the main corporate governance issue. For example, bureaucrats who control SOBs may continue to have many different incentives that are not aligned with those of taxpayers. These bureaucrats may maximise a multivariate function which includes, amongst other things, consumption of prerequisites, leisure time and staff numbers (Brownbridge, 2002 and Clarke et al, 2003). Also, bureaucrats may seek to advance their political careers, by catering to special interest groups, such as citing banks at some non-profitable locations (Shleifer and Vishny, 1997).

Where there is state residual ownership in banks, it is very unlikely that equal treatment will be given to all shareholders in terms of honouring shareholder rights including access to relevant information (Nam, 2006 and Arun, 2004). It was also noted that where government is the majority shareholder, decisions can be made without any support of minority shareholders, including decisions on the selection of directors (Brownbridge, 2002). In such partnerships, it is important that equal treatment is given to all shareholders in terms of shareholder rights to relevant information on related-party transactions, and self-dealing (Gerlach and Peng, 2005; Nam, 2006). However, given a credible government and political stability, there will be little conflict as the government ultimately guarantees deposits. Therefore, the question in this case is whether or not the government and or its agents can credibly commit that they won’t expropriate private capital owners and tax payers.

II. Private involvement in bank Ownership  
Apart from state ownership, the study considers the three dominant outsider ownership forms that exist in privatized firms (i.e., local individual investors, local institutional investors, and foreign

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34 Changes in corporate ownership can trigger changes in corporate governance structure (Li, 1994).

35 Government ownership of banks is a common feature in many developing economies (La Porta et al., 2002), supporting vested interests and distributional cartels (Arun and Turner, 2002).

36 Partial divestment of public sector banks may not bring desired changes in corporate governance mechanisms (Arun and Turner, 2002).
investors). Concentrated domestic private or foreign ownership is more likely to ensure the success after privatization, as large or institutional investors exert a close monitoring of management activities that ensures superior returns in privatised firms (Bonin et al. 2003; Clarke et al., 2003 and 2006). Thus, when majority shareholdings were sold to outsiders, especially to foreigners, monitoring management performances in banks improve (Clarke et al., 2006). An empirical study by Levine (1999) suggest that that the presence of foreign banks reduces the likelihood of banking crises and may result in banks becoming more prudentially sound. However, there is a serious intellectual case against foreign entry, which stems from the notion that a substantial positive franchise value induces self-discipline in lending (Hellmann and Murdock 1997). But if investor knows that it can expect to earn a stream of quasi-rents from its reputational capital in the future, it will not risk its reputation (Williamson, 1998).

Comparatively, foreign owners are crucial in bringing about active and deep restructuring of firms. Foreign owners may also bring new skills and expertise that are more valuable in a well-governed bank. Reasons cited in literature are summarised as follows: First, foreign investors are likely to be under greater government scrutiny than local firms, and this might discourage foreign investors from disregarding minority shareholder interests through transfer pricing and profit repatriation (Li and Zhang, 2009). Second, scholars have suggested that foreign corporate investors' access to governance expertise reduces monitoring costs, owing to resource availability and previous experience (Parker and Kirkpatrick 2005; Luez and Warnock, 2009). Third, such foreign investors as multinational corporations or foreign bank-sponsored funds are likely to have more diversified portfolios of production facilities or investments compared to local blockholders, making them less risk adverse (Faccio and Stolin, 2006; Havrylchyk, 2003). Indeed, foreign banks may be less sensitive to indirect government requests and pressures than domestic banks (Stiglitz, 1994). The ability of foreign banks to ignore government requests may give them a further competitive advantage. Thus, foreign bank penetration could undermine the ability of the governments to use the banking system to achieve social and economic objectives.

Dominant local individual or institutional investors in a privatised bank can also resolve monitoring and risk-bearing problems. Many local banks are believed to be characterised by deficiencies in the institutional mechanisms for constraining adverse selection and moral hazards such as under-capitalisation, lack of adequate expertise and weak supervising systems (Brownbridge, 1998). Recent works also questioned the monitoring and risk-bearing abilities of local indigenous ownership (Gillan

37 Foreign investors can reduce expropriation problems and are less likely to use economic and social expropriation mechanisms.
Local indigenous owners are hampered in their monitoring efforts because of the possible lack of resources and expertise to monitor their investments.

If banks are completely privatised then there must be adequate legal and regulatory enforcement necessary to protect depositors and prevent a financial crisis (Arun and Turner, 2002; Ayogu and Fosu, 2002).

### 2.7.2 Changes in Board of Directors and Top Management

The other internal control mechanism is the board of director and managerial changes. New owners whose objectives are more aligned with profit maximisation could replace under-qualified managers, and new monitoring mechanisms could be put in place by the new shareholders. Changes in the privatized firm’s upper management may also trigger efficiency gains. Replacing the often politically-appointed manager of the SOB with a professional business person should give them autonomy and ability to improve performance. For example, Lopez-de-Silanes (1997) recognize that the existing SOB management may lack the appropriate human capital to effectively guide the privatized firm in the new, competitive market. Based on literature reviewed, one expects that restructuring a firm in the form of board and top management changes will positively impact firm monitoring and management performance respectively. Besides, incentives to monitor managerial behaviour are poor, leaving managers considerable discretion to pursue their personal agendas (Williams and Nguyen, 2005). Changes in the membership of the BOD as well as changes of the executive team can be put in place to ensure more effective monitoring and management respectively. The importance of changing human capital (directors and managers) has been stressed in literature because, it serves as incentive to maximise the privatised firm’s value (Ujunwa, 2012). Changes in members of the board as well as changes of the MD can be put in place to ascertain more effective monitoring and management, respectively. The under-qualified managers could be replaced by others whose objectives are more aligned with profit maximisation, and new monitoring mechanism could be put in place by the new shareholders (Harber, 2005). Therefore, it is expected that, restructuring of the

38 As a result, institutional shareholders are not always there to monitor the controlling shareholder or stop the expropriation of minority rights.

39 For example, owners or managers of poorly capitalized banks have little money of their own which may increase their incentive for imprudent and fraudulent management practices. These moral hazards reveal corporate governance weaknesses which can be corrected by strict regulation and supervision by central banks (Barth et al., 2006).
BOD and changing of MD and or key management staff can positively affect the performance of top managers and reduce banking risk.

Changes in board and organizational structures can provide opportunities to observe management behaviours, increase monitoring effectiveness and will help identify an individual manager’s performance. Scholars argue that the new structures allow for more efficient monitoring of managerial discretionary behaviours and can substitute for weak corporate control mechanisms (Williamson, 1975; Sanda et al, 2008). However, some works suggest that continued government influence adversely affects top management performance after privatisation (Spulber, 1997). Their presence is likely to weaken managerial autonomy and accountability and independence of the boards, and might bring out conflicts of interest arising from the multiple roles of the state. It was further noted that bureaucrats might serve as a channel of state interference in the operation of the bank and weaken the functions of the boards. Thus, continued government influence adversely affects top management performance after privatisation (Harber, 2005).

Others often related traditional agency problems, such as entrenchment, to top management tenure in organizations (Tosi et al., 1997; Kuhnen and Zwiebel, 2008). If top management of the firm remains unchanged after privatization, managers with long tenures are more likely to be concerned about their job security and likely to initiate entrenchment efforts to thwart restructuring. Alternatively, Yarrow 1996 and others argue that government as the sole owner is free to pursue inefficient goals without regards to smaller owners and with lower motivation to monitor management (Clarke et al, 2003). Thus, political objectives, poor information, and principal/agent problems can compromise the privatized firm in ways that keep it from performing as well as a de novo private enterprise (Caprio et al, 2012).

Unlike non-banking firms, regulation may also act as a substitute for monitoring by boards. For example, the regulatory framework broadly cites the principle of good practice that advocate the engagement of qualified individuals to run banking institutions. Theoretically, the impact of regulation on the effectiveness of corporate governance is not clear. On the one hand, if regulation restricts managerial discretion and its scope to adversely affect shareholder wealth, shareholders may need fewer mechanisms to monitor managers. However most regulators do not stipulate

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40 All companies in Ghana have a unitary board system in line with the Anglo-Saxon model before the sector liberalisation. The board of directors performs the supervisory, advisory roles, and the executive roles (Company code, 1961). In addition, top managements are subjected to fit and proper test.

41 In the banking industry, regulators have the authority to restrict the type of activities that banking firms may engage in, require increases in regulatory capital, enforce reversals of high-risk policies, and veto takeover proposals.
levels of board independence (or other governance arrangements), their presence will still coerce regulated firms into adopting effective governance structures (Becher and Frye, 2011). This is because directors of regulated firms wish to be perceived by regulators as managing their firm well and are mindful of the legal and reputational consequences that would result if regulators lost trust in them (Hardlock et al, 2002). The stronger the mandate that regulators have been equipped with to intervene and discipline, the greater the “threat of action” (Ibid) that regulators pose to independent directors. Strict bank regulation therefore provides incentives to independent directors to monitor soundly and effectively. Thus, strict regulatory environments may promote firm-level governance that is effective in controlling for agency cost so that a complementary relationship exists between governance and regulation (Hagendorff et al., 2010). Either way, the presence of regulation will affect the design of internal governance mechanisms and their impact on corporate governance of banks. As previously argued, bank regulators offered subsidized monitoring services before the sector privatisation, boards were not pressured to monitor diligently under strict regulatory regimes. By contrast, post-privatisation stricter bank regulation can be understood as a signal that conveys a threat of action in the event of managerial or monitoring failures, this will encourage effective monitoring by the board under strict bank regulatory regimes. The existence of regulation means there is an additional external force with the power to discipline the agent. Under the Ghana’s companies’ code (Act 179), the business of a company is managed by the BODs except as otherwise provided in the company’s regulation before and after the sector privatisation.

Apart from ownership changes discussed already, the rest of the internal mechanism is discussed under the following sub-headings: Board features such as board composition and independence, board qualifications and objectives and functions, Management features and compensation of the board are some of the important determinants that should change for the board to effectively carry out its fiduciary function of monitoring the actions of management (Sullivan, 1998). These are discussed in turn.

i. **Board composition and Independence**

Bank autonomy was considered to be crucial to financial reform, if market forces should work efficiently. Thus, putting the private sector rather than the government in charge of determining who gets credit and at what price (William and Mohar, 1998). Effective separation between decision management and decision control calls for outside directors to carry out their tasks properly and not

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42 Leaven and Levine (2009) report that stricter regulation decreases bank risk when a bank is widely held but increases it when it has a large controlling shareholder.
collude with managers to harm the interests of the residual claimants. In a developed market economy, such incentives are thought to lie in the desire of outside directors to develop reputation as expects in decision control (Herman, 1981; Triker, 2012).

It is expected that the size of inside directors will likely decline and that of outside directors increase to enable to board to make independent and unbiased decisions (to avoid the pre-reform situation in which the MD in many instances undermine the effectiveness of monitoring). Increased number of outside directors will help minimize the private benefits to management. The importance of independence in agency theory is therefore due to a better ability to monitor management (Huang 2006). In the absence of state agents and or appointees, independent board is expected to focus on the monitoring function and on strategy formation (Nguyen & Nielsen, 2010). Thus, the separation of the board of directors and executive officers is likely to have positive impact on the monitoring function and the strategic decision-making capacity of the board.

In a commercially oriented entity, priority should be put on accumulating and disseminating business-related information rather than the political and social oriented information, as previously circulated. For example, the number of politicians on the board and top management positions within state banks is likely to shrink and the number of foreign directors many increase. Presence of politicians or ministers on the board may indicate control of the government. The presence of foreign directors and professional managers on the board may signal the opportunity of introduction of innovation and paradigm shift on the board.

ii. Qualification, Knowledge and Expertise
The poor pre-reform banking sector performance was partly blamed on the lack of qualified managers and the presence of directors with limited knowledge in the helms of banking affairs. Changes are therefore necessary to ensure directors and managers with requisite qualification and skills are appointed. The relevance of industry and firm knowledge can therefore not be underestimated as it is especially crucial with regards to resource distribution, in relation to the understanding of proposed projects or business (Adjaoud et al, 2007).

The qualification or skill appraisal should include review of the minutes of board meetings and, for each functional area, a complete set of reports provided regularly to the relevant director. The

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43 In line with good practice introduced in 1991, BOD must comprise at least one non-executive or an independent member. But this was not included in the pre-privatization hard law in 1989.
44 It was widely known that, bank directors at the time were holders of any qualification provided they belong to the ruling government.
follow-up actions undertaken by the directors can assessed to determine if the board is effectively fulfilling its responsibility to supervise the affairs of the bank and to stay informed of the bank’s condition (Nam, 2006). As such, it can additionally be argued that the predominance of agency theory within financial education and governance practice means that expert directors will be familiar with the best practice and act accordingly (Surendra 2010 and Weaver 2006).

iii. objectives and Functions of the Board/ top management
The companies code (Act 179) defined the functions and responsibilities of boards of directors quite clearly before the sector liberalisation in the early 1990s. For listed banks, however, the listing regulation expands the scope of the Board’s duties to include the determination of the remuneration policy. However, political interventions of the boards’ roles and functions had been reported before after the sector privatisation. With the orientation of management goals, it is expected that there will be a restructuring of board committees and executive committees to deal with relevant issues.

Since the banks’ survival and development is now to be more dependent on the market, the board and top management can be expected to place more attention to gaining competitive advantage, by establishing competent committees within the board and executive directors, to deal with the new market challenges. A consequence of this separation is that it is now more costly for the government to intervene into the privatized firm (Williamson, 1998). The need to have a profit oriented board and top management free of political or unprofessional interventions is an urgent call, should the bank be run as a viable commercial unit. Unilateral non-business or political decision making of agents of government could be expected to cease.

2.7.3 Changes in Organisational System and Management Features

i. Management Appointment and competence
Banking crisis mostly comes from the absence of good managerial ideas in corporate decision-implementation level. White (1993) argues that bank failures are seen by many to be caused by mismanagement, fraud and deregulation. Therefore, competence and focus play a major role in banking (Spiegel, et al. 1996: 51). According to Spollen (1997), mismanagement, especially excessive risk-taking, is the main cause of bank failure. Other reasons given include; inability of management to appreciate and control a business; inability of management to ensure compliance with lay down;

45 All the banks in Ghana have a unitary board system in line with the Anglo-Saxon model before the sector liberalisation.
procedures. Insufficient number of staff, particularly middle management, which can subject a small number of employees to over-time work, which could eventually result in the failure of a bank.

To reverse poor pre-FISAP firm level performance, the most important step may be to establish new management and key staff that does not carry on the status quo (Kotter and Hesketh, 1992), but can instigate paradigm shift. Bringing in new individuals at the managerial level is one of the common practices in changing management, but new management need not always mean the replacement of old people with new ones. Training can sometimes do the same task by altering the mental framework or paradigm adopted by existing management. In addition, when the banks become more independent of government agencies, it can be expected that the mode of appointing managers, at both the top and line management positions, will change. Where reforms become entrenched, administrative interference from government agencies should be reduced when making staff appointments and disengagements.

i. Bank and staff rationalisation, appointment and training

In addition, when SOBs become more independent of government agencies, it can be expected that the management and staff appointment process, at all levels will change. Where deregulation or privatisation become entrenched, administrative interference from government agents should be minimised when making staff appointments. Meanwhile business related skills and abilities, rather than political and party membership, should become the main reason when choosing managers. SOBs would not depend on subventions from Government but will be left to generate revenue for maintenance of the organisation, because the previous tendency to render more of social services than financial profits would change.

The SOBs were unable to make profit, as they depend solely on government subvention and faced development difficulties before their privatization or corporatisation. With the emergence of private investors it is believed that loss making branches will be closed. Prior to the reform, several factors have been cited to be responsible for failure of the public sector as business entity; they are faulty recruitment of employees, inadequate training, incompetent staff (Anka, 2006). Firstly, there was the need to recruit and retain specialists; secondly, there was the need for conception of new management of the public service and thirdly the new environment was to motivate them to achieve defined goals more effectively. Changes in organisational structure within firms may also mean that large-scale labour lay-offs occur in SOBs, in order to lessen the overstaffing long suffered
before reforms. In order to keep skilled staff and good performing branches, branch and staff ‘pruning’ to make banks more efficient and profitable.

2.7.4 Change in Executive Compensation and Performance Evaluation schemes

Prior to privatisation, salaries were set according to public servant scale enterprise payment scheme world-wide and were graded according to seniority of the post and the age of the employee. When the reforms deepened in Ghana, the system of permanent employment may be abandoned and contractual employment adopted (Firth et al, 2006) meanwhile, pecuniary means were introduced to motivate employees. In such circumstances, it is to be expected that, with the reform of state banks, pay will have to become more closely linked to individual performance. The increased entry of foreign investors may likely force the local banks to change their compensation system in order to retain the valued skilled staff. Changes are also to be expected in the remuneration of managers and in the evaluation of their performance (Werner et al, 2005). These are two areas closely related to control and incentive mechanism used within firms.

Perry (1999) finds the use of incentive compensation by board’s results in improved monitoring by directors. Hermalin and Weisbach (1998) and Gillette et al. (2003) developed models where incentive compensation for directors increases their monitoring efforts. Jensen (1993) proposes director Accounting Based Performance (ABP) will increase awareness about how their decisions affect shareholder wealth. In addition to providing motivation to monitor, incentive based remunerations may be needed to attract and retain high-quality directors and managers. Performance-based compensation linked to long-term stock performance might be a viable mechanism to mitigate agency problems by better aligning managers’ and shareholders’ interests. Nevertheless, as argued by Bebchuk and Spamann (2010), executive remuneration that is favoured by shareholders might diverge from the one favoured by the board of the bank.\(^46\) This divergence is caused by the profit-driven interests of shareholders, which do not necessarily coincide with financial stability concerns of supervisors.

With regards to the evaluation of managers, it is expected directors’ monitoring of managers’ behaviour will change by exposing the bank to market forces after privatisation. Although corporate boards are typically not required by law to institute formal management control over the MD’s performance, some authors agree that a formal process for evaluating managers’ performance is a

\(^{46}\) The risk-taking incentives of executives may be exacerbated if they receive options on bank’s equity as compensation instead of shares (DeYoung et al., 2013).
fundamental feature of corporate governance (Tosi and Gomez-Mejia, 1994). It is stressed that privatization will promote a board’s independence in overseeing the MD and adopting a formal performance evaluation process (Brown and Heywood, 2005; Young et al., 2000). It is expected that the performance of managers in Ghanaian banks will now be evaluated more in line with agreed business goals, and managers will be remunerated more according to the results of such evaluation, than previously. Such practices are expected to replace politically determined remuneration and promotion.

2.8 Conclusion

The ineffectiveness of several privatized firms within developing economies underscores the importance of agency theory issues and their impact on the privatization and corporate governance relationship. I argue that weak governance and limited protection of minority shareholders intensify traditional principal-agent problems (perquisite consumption and entrenchment) and create unique agency problems (expropriation). It is suggested that post privatization CG can be enhanced by using appropriate ownership, management, and corporate structures that mitigate agency problems in the context of weak governance.

The study adopts largely agency theory and an aspect of institutional perspective to complement it in interpreting the interactions among stakeholders based on the institutional constraints they face. Combining these two approaches minimises the weakness in the traditional agency approach to corporate governance. First, most studies analysing the corporate governance of banks have highlighted the limitations of the ‘traditional’ agency theory based on its focus on the primacy of shareholder value at the expense of other stakeholders such as depositors and regulators (Arun and Turner, 2004). Apart from shareholders-managers agency problems, banks experience it between managers and other stakeholders as a result of diverging preferences and also between bank owners and depositors. But, a generalized agency theory would be able to capture all three types of agency problems. Second, studies such as Aguilera and Jackson (2003) agree on the usefulness of institutional theory in extending models within an agency theoretical framework due to the contextual influences to assist in explaining ‘key constructs’ such as the nature of self-interest and the oversight responsibility available to principals. Institutional arrangements such as organisational and national culture or regulatory frameworks might have an impact on how the agency problem is construed. It has been widely agreed that the corporate governance system of a country is embedded in institutional settings. The quality of a country’s legal traditions and institutions plays an important role after divestment of government ownership in banks through enforcement of
contracts, and property rights. Corporate governance according to Guedhami et al. (2009) has more value in weaker legal and institutional regimes. La Porta et al. (2000) also argue that when a country’s investor protection laws are good, it reduces expropriation of minority investors. Consistent with this argument, Durnev and Fauver (2009) find that firms generally have less incentives to practice good governance, which positively affects bank performance (John et al., 2008), if the government is predatory.

Consequently, the degree of corporate governance in privatized banks therefore depends on such environment. John et al. (2008) show that in better governance environments, stakeholders are less able to reduce corporate risk-taking to pursue their self-interest, that is, corporate risk-taking increases with the quality of country-level governance. To conclude this section, both internal and external governance institutions need to be developed in order to strengthen the banking sector of any economy.
Chapter Three: Research Methodology and Data Collection Techniques

3.1 Introduction

The first chapter of the thesis set out the research context and discussed in detail the four research questions that this study addresses. It followed an exhaustive review of literature on the corporate governance and privatization generally, and specifically on banking sector, with particular focus on Ghana. As established in the previous chapters, the thesis complimented agency theoretical underpinnings with institutional perspective established a conceptual framework to facilitate the understanding being sought concerning corporate governance in Ghana. The relevant theoretical and empirical literature as well as the conceptual framework that guide the study has been discussed in the previous chapters. The purpose of this chapter is to clarify the research methodology, method and techniques utilized in this research from the initial stages of its conceptualization right through to its completion. It describes the methods and technics employed to collect and analyse quantitative and qualitative data that was employed in subsequent chapters for the purposes of seeking answers to the research questions set out in the first chapter of the thesis. Apart from expanding on the methodology outlined whilst discussing the research questions in chapter one, this chapter also aims to ensure that appropriate methodological and design procedures have been followed for data collection and analyses.

The next part looks into the overall research design and methodology with a detailed discourse on three major strategies of inquiry (quantitative, qualitative, and mixed-methods). Although all three methods have been employed in the field, yet qualitative enquiry would be most suitable for a study of this nature and out of the four major types of multiple methods designs (triangulation, embedded, explanatory and exploratory), the most appropriate approach to multi-methods (triangulation) has been used.

The final part of the chapter looks into the selection and choice of indicators and variables used for designing the questionnaire for administering face-to-face interviews for data collection in the field. Finally, the stakeholders considered for the survey are discussed alongside the sampling strategy used and aspects relating to data coding, data entry and reliability.
3.2 Research Design

The section discusses the underlying philosophy of the research process identified series of knowledge claims and discussed how and which of these related to this study. Generally speaking, research studies can be categorised into two basic types of scientific enquiries, namely deductive and inductive. While these methodologies are ultimately concerned with the development of theory, the direction from which this task is approached is different. A deductive research involves the clarification of a set of concepts which form a conceptual scheme and derivation of a set of testable propositions (Bergman, 2008). Upon this basis the original theoretical position is either not or is modified. By contrast, an inductive research starts with the analysis of empirical data and then move on to building of theory upon the basis of the data (Creswell and Garrett, 2008). The study reported in this thesis was intended to assess the impact of privatisation on the corporate governance of Banks in Ghana. It presupposes that, the research is concerned with reaching an understanding of how corporate governance is practised in banks after privatisation, than building theory per se. As a result, a deductive approach was employed in this research.

Deductive research can be conducted either quantitatively or qualitatively, or a combination of the two (triangulation). While the two most commonly used designs are qualitative and quantitative (Creswell 2003, 2008), Creswell (2008) argues that a study only tends to be more qualitative than quantitative or vice versa, rather than being either one of them, while according to Saunders et.al. (2003; 2012), it would be misleading to state that there is a rigid division between both approaches. Unquestionably, the three approaches are not as discrete as they first appear and qualitative and quantitative approaches should not be viewed as polar opposites or dichotomies; instead, they represent different ends on a continuum (Forman et al., 2008; Peräkylä, 2004).

This research utilised broadly qualitative method of analysis. A minimum quantitative approach was also employed, short of regression methods, as it was difficult to distinguish between the separate effects of privatisation on the various dimensions of corporate governance.

3.2.1 Quantitative research method

Quantitative data comprises closed-ended information that might involve using a closed-ended check-list, on which the researcher records the behaviours seen and observed in the field (Creswell and Clark 2007; Creswell 2008). It represents the positivist paradigm, which dominates natural sciences investigations; it seeks to explain a phenomenon through a sense of solid and objective analysis (William, 2011). In the context of this research, it may offer the avenue of providing explicit
and stronger causal relationships and provides a picture of trends and relationships. The approach was more appropriate with large number of samples within a relatively shorter period of time which help to augment methods of generalisation capacity (Berg, 2001). In the absence of large number of banks, the assessment of privatisation on the corporate governance of banks could be oversimplified if the method was used as the only form of analysis. Also, the quantities analysis of relationships between variables creates a static view of social life or process and lacks in-depth knowledge (Ivankova et al., 2006); it can amount to what Silverman et al. (2007) referred to as a ‘quick fix’, involving little or no contact with people or the ‘field’. This emphasis on the use of statistical correlations may be based upon variables that, in the context of naturally occurring interaction, may be arbitrarily defined.

Furthermore, the pre-FINSAP era performance data were said to have been doctored generally to meet regulatory requirement (Brownbridge and Gockels, 1996), the data available before the reforms have been manipulated and could not be relied on to give the real picture of the impact of the reforms on the banking sector behaviour. Sole reliance on quantitative method, involving these figures, might have generated inadequate result. Instead, a qualitative approach allows the research questions in this thesis to be explored in more depth (Silverman et al, 2007; Rubin, and Babbie, 2010).

3.2.2 Qualitative research Approach

Adoption of a qualitative approach is expected to result in an enhanced quality of data and a deeper understanding of the subject, as it views the world as processual rather than static one observed in quantitative method. Several advantages have been attributed to this approach of research methods. Qualitative approach further provides greater depth of understanding and provides a means of accessing unquantifiable facts and seeks answers to questions by examining various social settings and those individuals who inhibit the setting. Babbie (2010) on his part argues for qualitative procedure as an effective strategy for studying subtle nuances in attitudes and behaviour and for examining social processes over time. Creswell in his works (2003 and 2007) cited flexibility and validity as important advantages for the qualitative research approach. It implies that, the approach allows room for investigator to be innovative and to work within researcher-design frameworks. Qualitative research is broad (McLeod, 2008), and is a type of research that does not use statistical measure to produce its findings. Data for qualitative research is often generated through discussion, observation and conversation.
Despite the merits, the approach has being criticised as having a number of weaknesses. Lack of generalizability of result and difficulty in verifying information and influencing policy due to lack of precision of numbers are often cited as weaknesses of the approach (Yin, 2009). However, the use of multiple methods, or triangulation, reflects an attempt to secure an in-depth understanding of the phenomenon in question. The combination of multiple techniques, empirical materials, perspectives, and cases in a single study is best understood, then, as a strategy that adds rigor, breadth, complexity, richness, and depth to any inquiry (Smith, 2006). If systematically controlled and conducted, the method can lead to rigorous conclusions (Kuper et al, 2008). With these methods in mind, the study attempted to link the corporate governance observed before and after the reform is studied in natural context (multiple technique approach).

### 3.2.3 Triangulation

Triangulation can be a powerful technique that facilitates validation of data through cross verification from two or more sources. In particular, it refers to the application and combination of several research methodologies in the study of the same phenomenon increase the credibility and validity of the results (Altrichter et al., 2008). Since much social research is founded on the use of a single research method and as such may suffer from limitations associated with that method or from the specific application of it, triangulation offers the prospect of enhanced confidence (Weed, 2009). Triangulation of different data collection methods is considered for this research to ensure that the data are telling us what we think they are telling us (Lietz and Zayas, 2010).47

The combination of various research techniques leads to a well-rounded and informed formation of opinion. Jick (1979) argues that this design is largely a vehicle for cross-validation as two or more distinct methods are found to be congruent and yield comparable data, and it also tends to provide researchers with several important opportunities as it allows them to be more confident of their results, which is the overall strength of the multi-method design. The effectiveness of triangulation rests on the premise that the weaknesses in each single approach will be compensated by the counter-balancing strengths of the other (Allen et al, 2008).

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47“Triangulation also crosschecks information to produce accurate results for certainty in data collection”
It is expected that the triangulation of approaches in this research will be more effective in exploring privatization measures and corporate governance mechanisms in a processual way whilst making the results more robust by using approaches which support stronger forms of measurement. Yeung (1995) confirms that triangulation can improve the validity and reliability of data collected through, for example, using different methods (e.g. interviews, participant observation, archival research) or through posing verification questions within a single method such as an interview.

3.2.4 Research Time Frame

Since the research is concerned with changes in corporate governance, as a result of privatisation, it is important to decide on an appropriate time span for this research. Ideally, research on changes taking place over time should be conducted using series of follow up studies across the time period: but this sort of research design is impracticable for this research conducted over three years of full-time study. Therefore, instead of conducting fieldwork at different points in time, the researcher employed a strategy of collecting both historical and current data during the field work. Asking respondents to describe situations years earlier is open to criticism that memories maybe defective, but the clock cannot be put back. Since the study is concerned with change in corporate governance resulting from privatisation as part of FINSAP II, the main study period was set at 1995 and 2000, an era when the actual divestment of state shares in the Ghanaian banks took place.

Before undertaking fieldwork in Ghana, the relevant literature on the financial sector reforms, privatisation and the issues of corporate governance in Ghana, as well as policy responses were reviewed. These reviews helped to isolate the research problem and questions and further provided the basis for developing a conceptual framework to guide the study. Both the theoretical and
empirical literature helped to clarify the research questions and associated research propositions. The literature search also enhanced the interpretation, discussion and analysis of the data.

3.3 Research Method

Having explored the various methodologies and techniques, the preceding sections discussed the methods employed by the research. Combining the quantitative and qualitative approaches, the research adopted questionnaire survey, case study and minimum banking sector performance analysis.

3.3.1 Questionnaire Survey

This study used a questionnaire survey to obtain an overall picture of privatisation, ownership structure and corporate governance of banks before and after 2004. A survey is described as a means of gathering information about a particular population by sampling some of its members usually through a system of standardized questions for purposes of eliciting information which, after evaluation, results in a profile or statistical characterisation of the population sampled (Punch, 2005).48 There are two basic survey designs which use questionnaires to collect data; cross-sectional and longitudinal surveys (Babbie, 2010). By asking the same or similar question to all respondents, the research method is said to be useful in describing the characteristics of a large population (Baxter and Babbie, 2004).49 Thus the broader picture that maybe generated by the survey questionnaire will be reduced to a narrow one in the individual cases.

In total, the questionnaire had factual and opinion based questions on ownership structure and corporate governance of Ghanaian banks. These questions were grouped into five main sub-headings which are; general information on the banks, ownership structure, Board of directors, Management features, compensation and evaluation, and the effect of the 2004 banking law. All the questions in the questionnaire were closed ended questions to allow respondents to specify anything listed in the choices to determine the changes that might have taken place between 1995 and 2000. An option of ‘other’ or ‘neither agree nor disagree’ was also added in the questionnaire to

48 According to Punch (2005), the term survey has different meanings. It is sometimes used to describe any research which collects data (quantitative or qualitative) from a sample of people.

49 Babbie (2004) also suggests that the method is said to be the most commonly used technique to collect data that are beyond the reach of the investigator.
allow flexibility where respondents did not agree with the listed choices. Missing data in returned questionnaires were filled out through telephone calls and face to face meetings with the respondents. A more detailed discussion on how the questionnaire was administered is discussed in chapter 5 where the survey results are analysed (Appendix I).

### 3.3.2 Case Study Approach

Having explored the sector-wide corporate governance in research issue one by mostly using Questionnaire survey (3.3.1), the study proceeds to validate the findings at the bank firm level using in-depth case studies to unearth how privatisation affected CG of these. Generally speaking, questionnaire survey employed by closed ended questions has inherent problem. Whilst these questions are necessary to get specific responses on some of the research issues, it is difficult to get in-depth and context related information. To offset this limitation, the researcher uses case studies. Case studies are defined as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used (Eisenhardt and Graebner, 2007). This approach will reasonably deal with the research issues 2, 3 and four which explores how the reforms affected the behaviour of banks. A preliminary analysis of the despondences from the survey showed that there were improved corporate governance practices of the commercial banks as a whole than what pertained before the FINSAP specifically in 1995 when government implemented its share divestment policy in banks.

Hartley (2004) argued that case study methods often answer why and how questions, which is exactly why the study will adopt the case method, since the questionnaire survey will address what question. Whilst the questionnaire survey will answer the question to what is changed, it cannot however give an answer to how the changes affect the corporate governance in banks. It is very important to use case study (to get complete impression) to further validate the information at the bank firm level. The case study is preferred in examining contemporary events, but when the relevant behaviours cannot be manipulated. This is an advantage for the use of the approach, and this research investigates corporate governance phenomenon which hitherto could be manipulated or be unknown to the researcher. Consistent with Yin (2003), the researcher used multiple source of collection of information: documents, archival records, interviews, and direct observations. The researcher also uses three month internship period in the late 2009 with the central bank as a way

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50 ibid
of gaining more insight into the Legal, regulatory and enforcement issues at both individual firm and industry levels.

### 3.3.2.1 Case Study Design

The search for appropriate answers to the question posed from the theoretical perspective is done in this thesis by means of a case study. Each strategy in social science research has peculiar advantages and disadvantages, depending on three conditions: (a) the type of research question, (b) the control an investigator has over the actual behavioural events and (c) the focus on contemporary phenomena. A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. As discuss already in methodology any empirical research has an implicit research design. In the most elementary sense, the design is the logical sequence that connects the empirical data to a study’s initial research questions and, ultimately, to its conclusions.

In this study, multiple cases are used to obtain a deeper understanding of the corporate governance practices of the selected banks after the implementation of the privatisation. These chapters address the research issue regarding how the corporate governance mechanisms (internal and external) were affected by the privatisation policies headed by the divestiture implementation committee (DIC). A multiple narrative is used to describe and analyse the case, since the strategies and techniques may not be well defined yet (Yin, 2007). In principle, the data to be presented allows external observers to follow the derivation of any evidence from initial research questions to ultimate case study conclusions. Consistent with the arrangements used in chapter five, the cases structured under ownership structure, Board of directors, Management features and Compensation and internal control of banks within banks. The effects of the legal regulatory enforcement after the privatisation were also captured (appendix II).

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51 Using case studies is believed to be an appropriate approach when an investigator identifies cases within boundaries and seeks to provide an in depth understanding of the cases or comparison of several cases (Creswell, 2007 and Yin, 2003).

52 Generally speaking, data for case study can come from many sources of evidence. Six important ones have been discussed in literature: Documentation, archival records, interviews, direct observation, participant observation, and physical artifacts. This study focuses on at least four of these sources.
3.3.2.2 Selection of cases

The external validity of case studies has been argued to be enhanced by the strategic selection of cases rather than their statistical selection (De Vaus, 2001). It entails being somewhat knowledgeable about characteristics of the case before a main or proper case study begins. This is a fundamental consideration for case methods and successfully linking the data and conclusions to the theoretical propositions. Cases may be chosen because they extend emergent theory, fill theoretical categories, provide examples of polar types, or replicate previously selected cases (Eisenhardt and Martin, 2000). In this regard, the need for appropriate selection criteria is not different to that of any other form of experimentation centred on replication logic (Yin, 2009). The choice of case is sometimes obvious (e.g. critical, unique or extreme cases). How one approaches the question of selection bias in the choice of cases depends on how one intends to generalize from the case analysis. Yin (2005) suggested that researchers should decide whether to do single-case or multiple-case studies and chose to keep the case holistic or have embedded sub-cases.\(^5\) Yin (2009) distinguishes between "cross-case" and "within-case" analysis, arguing that only in the former is selection bias a problem.

I. Main Selection Criteria

Using the main research question, this study selected bank cases that were established prior to the FINSAP in order to ascertain the corporate governance in banks before and after the reform. That is the best way to adequately address the research question, since banks established after FINSAP may not have sufficient information to address the main research question. The study therefore uses the time of bank establishment as the main criterion or yardstick to select the cases. In order to achieve the objective of examining the change in corporate governance after the sector privatisation, it is important that the cases selected were established before the reform.

Consistent with the research question, ownership forms (state and foreign) may occur independently or in some combination\(^5\) during privatisation process were considered in this category. This form of identity is considered to have corporate governance implications for banks.\(^5\) Different bank ownership forms (State and Foreign) are believed to have differing effects on corporate governance based on empirical studies discussed already (section 2.6), because they vary

\(^{53}\) Random sampling is not typically a viable approach when the total number of cases to be selected is small. Hence attention to purposive modes of sampling is needed.

\(^{54}\) These can be grouped into patterns of ownership concentration dominant and distributed ownership.

\(^{55}\) Different types of bank ownership (State and Foreign) are believed to have differing effects on corporate governance.
in their relative ability to reduce traditional agency problems in an organisation.  

In this regard, state banks (SOBs) are defined as banks in which the state is the majority controlling shareholder, and foreign banks (FOBs) are those in which the majority shareholder is a foreign shareholder (Table 4.1).  

II. Other selection Criteria  
Within each ownership type, issue of traditionality was considered. The traditional SOB was not divested or no shares in the public institutions were sold, the second bank was divested through initial public offering on GSE. In both cases there is potential expropriation by the state as managers may not be effectively monitored, but new owners in the listed bank may subject management to extra corporate governance mechanism. In FOBs, the corporate governance practices in the traditional FOBs and the new FOBs (former state banks), may not be the same. Bonin et al., (2003), argued that, new privatised banks may not mimic their traditional counterparts in corporate governance due to their experience in the market. It is important therefore that, within the foreign banks, selected cases include the traditional banks and the very new ones resulting from privatisation.  

a. Group A  
In line with the second sub question, the first group represent banks with residual state ownership designated Group A. The group represents two banks that remained in the state ownership after the privatisation under the FINSAP III. In this group, one indirectly owned by government through state institutions through strategic re-capitalisation liquidating the shares of the minority shareholders (Cooperatives) and second bank that had undergone government share divestment through privatisation process (IPO). In this group, Ghana Co-operative Bank (COOP) and Ghana Commercial Bank (GCB) have been selected as cases respectively.  

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56 Experts argue that in SOBs, the main corporate governance problem is the conflict between the government/taxpayers (as owners) and the managers/bureaucrats who control the bank (Micco et al, 2007). Foreign investors can reduce expropriation problems and are less likely to use economic and social expropriation mechanisms (section 2.7.2)  
57 Private indigenous banks in which the majority shareholders are private local shareholders were excluded from the studies because, they are established after the sector privatisation and did not experienced the change studied.  
58 Local Institutional investors may have incentive to monitor management actions and deter managerial opportunisms (Weir, et al, 2002), provided they have resources and expertise to better access to information about the company.  
59 Traditional FOBs are those under foreign control before their buy-out of rest of state shares in them.
b. Group B

In order to deal with the third research sub-question, privatised banks with foreign investor involvement were considered in Group B. They consist of banks which were fully or partially in the hands of the foreign investors after privatisation between 1995 and 2000. The group made of one foreign fully owned, non-traditional foreign owned (former state owned bank), one partially owned with local institution (former traditional foreign bank). In exception of the fully privatised former state owned bank, the other two banks were traditional foreign groups that bought 40 per cent shares each of the government shares in them. The traditional foreign banks were distinguished by virtue of their listing status on the GSE. These banks include SG-SSB Ltd, Barclays bank Ltd (BBL), and Standard Chartered Bank Ltd (SCB) respectively. All the selected banks in each group operated before the regulatory changes in 1990 which underpinned privatisation and ownership deregulation of the banking sector.

By strategically choosing the cases in this way, the case study chapters were to establish similarities and differences if any, within and among the groups. Generally, banks in operations before and after the implementation of sector privatisation were considered for the research (Table 3-1).
Table 3-1 Criteria for cases Selection

<table>
<thead>
<tr>
<th>Ownership forms</th>
<th>Method and Degree of privatization</th>
<th>Majority shareholder</th>
<th>Selected Bank(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs (Group A)</td>
<td>Direct sales</td>
<td>Public Institutions</td>
<td>State- Cooperatives partnership before and after 1995. Corporatized and capitalised by government institutions in before 1990. <strong>State-Cooperatives-local institutional partnership after corporatisation</strong></td>
</tr>
<tr>
<td></td>
<td>Partially nationalised (Capitalisation)</td>
<td>(SSNIT)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IPO</td>
<td>Public Institutions</td>
<td>Fully state owned before 1995. Partially divested through listing on the GSE. <strong>(Government-local investor partnership)</strong></td>
</tr>
<tr>
<td></td>
<td>Partially divested</td>
<td>(SSNIT)</td>
<td></td>
</tr>
<tr>
<td>FOBs (Group B)</td>
<td>IPO</td>
<td>Foreign Institutions</td>
<td><strong>Fully SOB before 1995</strong> partially listed on the GSE as part of the divestment process and the rest was strategically or directly sold to foreign institutional investor. <strong>(A foreign-local partnership)</strong></td>
</tr>
<tr>
<td></td>
<td>Fully divested</td>
<td>(SG-SSB)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Direct sales</td>
<td>Foreign Institutions</td>
<td><strong>Foreign-State partnership</strong> before 1995 (Barclays majority shareholder). Barclays bought out government stake in the bank to become the first fully owned foreign bank after FINSAP II. Non-listed on the GSE before and before the buy-out.</td>
</tr>
<tr>
<td></td>
<td>Complete buy-out</td>
<td>(Barclays Plc.)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Complete buy-out</td>
<td>Foreign Institutions</td>
<td><strong>Foreign-State-Local individual partnership</strong> before 1995 (with SCB being the dominant shareholder). State interest was bought by its parent group. Unlike BBG, SCB listed close to 40% of its shares on the GSE after 1996. <strong>(Foreign-Local partnership)</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Standard chattered)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s compilation from registration document with the bank of Ghana.
This cross analysis of multiple cases studies is important in establishing the circumstances in which a theory will or will not hold (Yin, 1984). This multiple cases approach is important in analysing the theoretical assumptions discussed in theoretical framework in which one unit in a population is forced to resemble or has similar characteristics with other units which face the same environmental conditions similarity of structure, thought, and action.

### 3.3.3 Data collection

This case study research approach explores bounded system(a case) or multiple bounded systems (cases) over time, through detailed, in-depth data collection involving multiple sources of information (interviews, ministerial reports, and documents and reports), and reports a case description and case based themes. The study of fact of any particular issue, the contents of which require an in-depth focus of the social sciences area to understand its phenomenon on the basis of it being an individual problem (Walcott, 2001). It is in this light that the cases gave an indicative (in-depth) stance of the CG changes (micro or firm-level) resulting from the privatisation. The study strategy’s (Cases) strength is that, it lead to general findings, and its procedures (questionnaire, interview, and participation and documentation analysis) are well tested. This technique of data collection in case study research is typically extensive, drawing on multiple sources of information (Creswell, 2003).

The data for the case studies were drawn largely from semi structured interviews conducted during a field visit to Ghana in August, 2010. In each of the selected banks, semi-structured interviews were conducted with chief executives, executive directors, or top level managers. For the liquidated bank (COOP) which is no longer in existence, interviews were done with former bank executive of the bank. To complement data on the collapsed banks, interviews were also done with banking supervision department (BSD) of the central bank. Thus, the supervisor(s) (relationship managers) from the BSD of BoG and other experts were interviewed to cross check on the facts provided by the banks. They were also asked questions that focused on changes to the banking sector regulation before and after the sector privatisation.

Similar the analysis of internal governance mechanism discusses in 2.5, the research include a study of the Legal, regulatory and enforcement as a component of external mechanism of corporate

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60 Creswell (2003) recommended several types of information to collect in a multiple approach case study: documents, archival records, interviews, observation, and survey among others.
governance. From the discussion in chapter 2, businesses are run in reaction to constraints and incentives presented by their governance structure, be it external or internal. Changes in this external mechanism unit should result in adaptations in behaviour at the bank firm level. A shift in legal, regulatory and enforcement functions may impinge on soundness of the banking environment during privatisation era. The impact of changes to the legal, regulation and enforcement regimes were looked at. The main stakeholders considered for interviews were drawn from the central banks and other relevant areas in the financial sector (Table 3-2).

### Table 3-2 Details of the Banks Interviewed

<table>
<thead>
<tr>
<th>Bank</th>
<th>Ownership Controlling owner</th>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>COOP</td>
<td>Government of Ghana</td>
<td>MEYK</td>
<td>Non-Executive Director (former)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MLYB</td>
<td>Managing Director (TTB)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DJKA</td>
<td>Former Executive Director</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MPEC</td>
<td>Assistant Director (BoG)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MBDM</td>
<td>Head of Banking Supervision Dept.</td>
</tr>
<tr>
<td>GCB</td>
<td>Government of Ghana</td>
<td>MSMD</td>
<td>Deputy Executive Director</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MSMN</td>
<td>Executive Director (Finance)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MRAB</td>
<td>Chief Examiner of Banks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MRAM</td>
<td>Relationship Manager</td>
</tr>
<tr>
<td>SG-SSB</td>
<td>Societe General</td>
<td>MEYK</td>
<td>Non-Executive Director (former)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MJAE</td>
<td>Non-Executive (Former)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MJAG</td>
<td>Executive Director (Legal-ADB)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MOAB</td>
<td>Relationship Manager</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MRAB</td>
<td>Chief examiner of Banks</td>
</tr>
<tr>
<td>BBG</td>
<td>Barclays PLC</td>
<td>MEAS</td>
<td>Senior manager (Finance)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MDAMK</td>
<td>Executive Director</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DCMF</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MMQA</td>
<td>Chief Manager (BoG)</td>
</tr>
<tr>
<td>SCB</td>
<td>Standard Chartered PLC</td>
<td>MDSZ</td>
<td>Executive Director (Legal)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MRAA</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DQQA</td>
<td>Director of Research (BoG)</td>
</tr>
</tbody>
</table>

Source: Authors own construct based on survey and interviews carried out in 2010.
### 3.3.3.1 Interview procedures

The selection was based on the suitability of the interviewees in enlightening the issues under study (Savage and Williams, 2008). Most of the interviewees were officials of the central bank and the rest coming from different corporate sectors with each holding executive management positions including Managing Director and Chairmen. Many of the interviewees were found to be closely associated with the banking sector over the study period. The objective behind the selection of interviewees was to cover a wide range of interviewees representing different stakeholder groups of financial institutions. Eight group of stakeholders were identified who were the ‘claimants’ on, or have influence in the banking sector of Ghana, and these are: Consultants or financial experts, legal and regulatory bodies, government, academic, Association of Ghanaian Accountants, Association of Bankers, Institute of Bankers, Ghana Stock Exchanges and SEC. In total the total of five selected banks were interviewed to fifteen bank supervisors (including 11 relationship managers). Another ten stakeholders who are experts were also interviewed. The study used the snowballing technique, where personal networking was used to encourage respondents to participate. This technique resulted in favourable responses. To my knowledge, this study is the first attempt to incorporate a wide range of stakeholders’ perceptions to help understand the barriers to corporate governance in developing countries, taking the particular case of the banking sector Ghana.

A total of 20 interviews were carried out from 5 different banks. The details of the banks interviewed are shown in Table 3.2. For the sake of anonymity, the names of the interviewees are not given. This was required by the interviewees due to the sensitivities of the subject. Most of the interviewees are also still in their jobs, which could compromise their positions were they to be identified. All the interviews were held at the interviewees’ place of business, as preferred by the interviewees. The interviews lasted for a minimum of 40 minutes and a maximum of one hour depending on the knowledge and interest of interviewees. All interviews started with the introduction of the research purpose, method, ethical issues, and also the rights of the interviewees. The study also took permission from each of the interviewees before recording, and except for one case, all the interviewees agreed to the voice recording of the interview sessions. Field notes were taken in all cases to supplement the recorded material. Moreover, an outline of the interview was written up immediately afterwards and sent to the interviewee for verification and further comment.

The semi-structured interview guideline in appendix II was followed to ensure the interview protocol, where questions were asked in an open-ended fashion following a conversational style (Gerson and Horowitz, 2002). Following the general introductory questions, the discussion moved gradually on to
the semi-structured questions of the interview. Depending on the interest and knowledge of the interviewees, the dialogue covered many different issues which either they have personally experienced or have observed others to face. However in each of the interviews, the research ensured that the interviewees discussed potential and actual changes in the key issues as result of the banking sector privatisation.

This technique also helped the study to avoid a risk associated with interviews, which arises when the interviewees attempt to convey views perceived as socially desirable and representative of what they believe the interviewer wishes to hear, or alternatively they hide facts (Saunders et al., 2007). In addition, attempts were also made to minimize any potential effects of biased opinions by thorough preparation, careful design and conduct of the interviews. A list of the interviewed firms and the people interviewed has been discussed above (see Table 3-2). In addition to the semi-structured interviews, data from the questionnaire survey and secondary data sources such as archival records, annual reports, listing documents and central bank reports on the collapsed banks, banking regulatory documents, court documents and newspaper reports were also used to corroborate the case study findings. Unless otherwise specified, the data for the case studies are from the semi structured interviews.61

Following the general introductory questions, the discussion moved gradually on to the semi-structured questions of the interview. Depending on the interest and knowledge of the interviewees, the dialogue covered many different issues which either they have personally experienced or have observed others to face. However in each of the interviews, the study ensured that the interviewees discussed potential and actual changes in the key issues as result of the banking sector privatisation.

1. Ownership structure
1. Board of Directors
2. Organisational system and Management Features
3. Compensation and Management Evaluation
4. Effect of changes on internal control and risk issues as evidence in the outcome corporate governance practices over the study period.

61 The semi-structured interview guideline was followed to ensure the interview protocol, were asked in an open-ended fashion following a conversational style (Gerson and Horowitz, 2002).
3.3.3.2 Archival, Documentary and other Secondary Sources

In addition to the primary data obtained through field survey and interviews, we also collected secondary data from individual banks and the BOG. The secondary and time series data are based on (a) the consolidated balance sheet and income statement of commercial banks in Ghana, (b) prudential and audited returns from the BOG, (c) macro-financial data from BOG, and (d) macroeconomic data from the Ministry of Finance and Economic Planning (MFoEP) and bank statistics with the Ghanaian Association of Bankers. The analysis of the impact of the reform on the efficiency of the banking sector and its impact on financial deepening and savings mobilization relied on secondary data supplemented by primary data from the survey questionnaires. The secondary data was analysed from the macro and micro level. The scope of aggregate macro data ranges from 1960 to 1988. However, firm level data for the analysis is from 1989 to 2000.

Documents may be regarded as physically embodied texts, where the containment of the text is the primary purpose of the physical medium (Wajnryb, 1995). Documents obtained from banking supervision division (BSD) include the meeting memos, corporate articles, periodic BSD reports, banking sector publications of the central bank (annual, quarterly and newsletters). These data were used to verify and complement the information collected through interviews. It was found during the process of analysis that the data from these sources were generally consistent.

3.4 Data Analysis

Most of the data used in writing the case came from face-to-face interviews. Interviews provide the opportunity for the researcher to probe deeply to uncover new clues, open dimensions of a problem and to secure vivid accurate inclusive accounts that are based on personal experience (Kirchner et al., 2004). The semi-structured interview is a data-collecting method based on a set of questions that have been worked out in advance, while providing the researcher with freedom to modify the questions according to the context of the conversation (Elo, S., & Kyngäs, 2008). It not only allows the researcher to control the whole process of an interviewee with opportunities to give a description of an episode, a linkage and an explanation (Ibid). In each bank, more than one informant was interviewed (see table 6-2). This phenomenon gives us the chance to verify the answers given by the contact director. This was made possible by the networking effect of the researcher in his previous employment and professional group effect. Some of the respondent directors as a result were ready to recommend other members of the board and or other high ranking executive director with the requisite information in most cases studied. This single limitation must be kept in mind when interpreting the results. However, the multiple informant participation in the other banks might
obliterate the weakness that may arise from only one bank. To limit error, various internal documents were necessary to validate the information obtained from the interview. Few of the banks were unwilling to produce these materials, since they are obliged to give a copy to the bank of Ghana in most case; it was much easy to obtain in one location. The researcher’s ability to obtain this at a central location enables us to focus on just interviews without creating impression of over exposing the banks.

3.4.1 Data entry and cleaning and reliability

Chapman (2005) insists that no matter how efficient the process of data entry, errors will still occur and therefore data validation and correction cannot be ignored. Data cleaning is therefore an essential part of managing information in an efficient manner. Various checks were made such as format checks, completeness checks, consistency checks and rationality checks, etc.

3.4.2 Fieldwork Difficulties

Collecting the data required for this thesis was not without its challenges. Although the researcher overcame most of these difficulties, some of these challenges experienced are highlighted here. In most cases, banks were unwilling to provide data on their operations since most of the data is protected by banker-client confidentiality. Banks are also generally opaque and disclose only the minimum information as compelled by regulations. In Ghana, acquiring data regarding corporate governance is particularly challenging since such information is considered sensitive, following the arrest of a number of some bank officials on allegations of corporate governance violations.

In this polarised environment, gathering data from either the central bank or the banks themselves regarding corporate governance may be regarded by the respondents as being accusatorial. This could have created a problem in which respondents painted a positive picture of the corporate governance practices in their banks which could affect the reliability of the results. In most banks, interview appointments were difficult to secure since most of them were with the very busy individuals. Some of the appointments were also postponed or cancelled and required rebooking.

Most of the interviews were recorded after seeking consent from the interviewees. Notes were taken in a fieldwork diary where an interviewee elected not to be recorded or appeared uncomfortable. Collecting the performance data also presented several challenges. Bank performance data for the period before FINSAP and early 1990 was generally unavailable.
Performance data was not available for the banks which collapsed after the financial sector reforms and this limit the level of analysis to one liquidated bank.

3.4 Limitations of the Research.

Despite the researcher’s sincere effort to present a thesis with the best possible data set and analysis, some limitation are inevitably presents, the first being the lack of any prior study and/or database on corporate governance of banks in Ghana, which required the extraction of primary data covering all aspects of corporate governance from banks in Ghana via a lengthy questionnaire. It is important to highlight that this research suffers from some possible limitations. Though the study covers two different periods in time would have needed to be conducted at the same bank twice (in the case of this research, before and after the crisis) to get a more balanced view of the changes over different periods, the data was taken in 2010. This had its weakness, as respondents may forget crucial issues over time.

A further study could also collect more individual bank data over a longer period. A wider research would be able to make an in-depth analysis of the banks across all three ownership types. Further, with more individual bank level data over a longer period, empirical studies can then be conducted using a time series or panel regression analysis. It was also observed in the study that the situation in the Ghanaian banking sector has been changing constantly. As a result, there is an obvious need to carry out series of follow-ups to modify the data and the arguments, where appropriate. Additionally, because the Central Bank’s database of individual banks was only established during FINSAP II, it has not been possible to conduct a comparative performance analysis over very long period of time, and such an opportunity would have allowed for a more vigorous analysis of the issues prior to the reform era\(^\text{62}\). Despite these limitations, pioneer studies to analyse the effect of privatisation on the corporate governance, the research is expected to contribute to the literature on the corporate governance of banks in Ghana and in developing countries in general.

\(^\text{62}\)Performance data for the banks which collapsed as a result of the financial sector crisis was also unavailable. As a consequence, the limited data curtailed the scope of the empirical analysis for pre-FINSAP era.
3.5 Conclusion

This chapter focuses primarily on research methodology and design. Three major strategies of inquiry (quantitative, qualitative and mixed-methods) were identified in the research methodology. The chapter discussed the methodology adopted in this study to address the research questions. Triangulation of research approach, research methods and data is employed. Firstly, there is a triangulation of research approach in which qualitative and quantitative approaches have been combined. Second, the research employs a triangulation of research methods which includes a questionnaire survey, case studies and analysis of bank performance. Third, the research also uses data triangulation by using both first and second hand data. In this regard, the study mixes approaches, methods and data to get more viewpoints regarding the subject being studied and make the research findings more valid, reliable and rigorous (Creswell, 2007).

The next chapter in this research discuss broadly the country features and banking sector performance data, with the other chapters dealing with empirical work. Chapter 5 starts with the results from the questionnaire survey. Chapter 6-8 discusses the case study findings and Chapter 9 draws the study to a conclusion by summarising the main findings.
Chapter Four: Historical Development, reform and performance trends in the Ghanaian Banking Sector

4.1 Introduction

The first chapter set out the research context and discussed in detail the research questions that this research addresses. While chapter two discussed the theoretical underpinnings, the last chapter addressed issues pertaining to the design and methodology of the research. This chapter discussed the evolution of the banking sector before and after independence of Ghana, and completed by in-depth analysis of financial sector reforms (FINSAP). It also attempts to analyse the performance change resulting from the privatization and regulatory reforms to the financial sector of Ghana. The banking sector in Ghana has experienced several regulatory changes and banking restructuring overtime. These changes are important in understanding how the current corporate governance architecture developed and the institutional mechanisms which may have contributed to this evolution. The chapter provides background information regarding some country specific features which may be important in contextualizing the research. An overview of the history of banks is important in understanding how the banking sector and corporate governance practices evolved and the institutional arrangements which could have affected this development. It also attempts to give an overview of the sector performance before and after the FINSAP. The overview gives an idea of performance change resulting from the implementation of the sector liberalisation or FINSAP.

The rest of this chapter is organised as follows, the next section discusses briefly the political economical and institutional environment in Ghana over time. In this regard, the macroeconomic environment, and the legal and regulatory systems are discussed. The following sections discuss the historical development of banks before and after the FINSAP. The last section summarises the discussions made in this chapter.

4.2 Legal and Regulatory Framework of the Banking sector of Ghana

Ghana is a common law country. The origin of the present legal and judicial system is based in part on English common law. However the legal system of Ghana is different from the absolute form of English law from the perspectives of socio-cultural values and religious guidelines. The companies are governed by the Companies Code 1969 which is based on the 1908 UK Companies Act (Mensah, 2002). All domestic companies of Ghana are incorporated under this Act. It governs the relationship
between shareholders and a company, audit system, transparency, disclosure procedure and the jurisdiction of the courts in relation to companies. In addition to the Company code 1969, there are also some other principle laws which shape the corporate governance system of Ghana: for example, the, Securities and Exchange Ordinance 1969 that deals with investors’ protection, capital issues, registration and regulation of the Stock Exchange, capital market regulation and issues in relation to securities. The Ghana Stock Exchange (GSE) is the only one established in 1990 under the FINSAP II.

The central bank and the stock exchange are important institutions in analysing financial institutions, including the banks. The Bank of Ghana (BoG) is the main licensor and supervisor of the banking sector. The evolution of the Ghanaian central bank is intertwined with the colonial history of the country. Before it attained independence in 1980, Ghana was called Gold Coast, under the rule of Britain. The government established one central bank as the single monetary authority. This regulatory authority was established in 1953 and called the BoG and became fully operational under an Act of Parliament in 1956 (Brownbridge and Gockel, 1996). The central bank had its office in Accra and had the responsibility of issued notes and coins. However, Gold Coast attained its independence in 1957 and changed its name to Ghana. Ghana’s central bank was accordingly called the Bank of Ghana.

At present there are four key regulatory institutions which have influence on Ghanaian corporate governance from the view of establishing corporate governance norms and compliance in the banking sector. These are (i) the Registrar of Companies and Firms which is responsible for registering companies under the Companies Code; (ii) the Regulator of Financial Sectors or Bank of Ghana (BoG) which is the primary regulator of banks and non-banking financial institutions in Ghana; (iii) the Securities and Exchange Commission (SEC) which is in charge of regulating the capital market including providing protection of investors’ interests and the development of the securities market; and (iv) the Institute of Chartered Accountants of Ghanaian (ICAB), which has responsibility for setting accounting standards for companies.

4.3 Post-Colonial Banking Sector

Extensive government intervention characterised financial sector policies in the post-independence period. Public ownership dominated the banking system: all of the banks set up between 1950 and 1990 were wholly or majority owned by the public sector, while the government also acquired minority shares in the two already established foreign banks. Interest rates were administratively

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63 Appendix VIII outlined the regulatory landscape between 1990 and 2010
controlled by the Bank of Ghana (BOG) and a variety of controls were also imposed on the asset allocations of the banks, such as sectoral credit directives (Osei et al, 2005). The motivation for these policies was the belief that, because of market imperfections and the nature of the financial system inherited from the colonial period, the desired pattern of investment could not be supported without extensive government intervention in financial markets. Policies were motivated by three objectives: to raise the level of investment, to change the sectoral pattern of investment, and to keep interest rates both low and stable (Aryee et al and Kanbur, 2007). Financial sector policies were characterised by severe financial repression, real interest rates were steeply negative and most of the credit was channelled to the public sector.

4.3.1 Involvement of government in Banking Business

Dissatisfaction with the foreign banks focused on their conservative lending policies, modelled on those employed in the UK, and in particular their demands for the types of security (life insurance policies, stock certificates, bills, etc) which were uncommon in Ghana (Osei et al, 2005). The Ghana Commercial Bank (GCB) was set up in 1953 to improve the access to credit of indigenous businesses and farmers.

It was also instructed to extend a branch network into rural areas, so that people in the rural areas would have access to banking facilities, and was heavily involved in lending to agriculture. GCB became the largest bank in Ghana: it had 36% of total bank deposits in the late 1980s. The GCB was set up following the recommendation made by the Trevor Report, an enquiry commissioned by the government into banking in the then Gold Coast. The enquiry had been prompted by local criticisms of the operational practices of the expatriate banks and the workings of the sterling exchange system (Brownbridge and Harvey, 1998).

The Social Security Bank (SSB) was set up in 1977. It grew rapidly to become the second largest bank in Ghana, with 18% of deposits in the late 1980s, providing credit, including longer term loans, for businesses and consumers (Antwi-Asare and Addison, 2000). It also invested in the equity of several large businesses. Two smaller commercial banks began operations in 1975. The National Savings and Credit Bank (NSCB) - formerly the Post Office Savings Bank - and the Cooperative Bank: these were

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64 The government established its own commercial and development banks for two reasons: the belief that the operational focus of the foreign commercial banks, in particular their lending policies was too narrow, thus depriving large sections of the economy of access to credit, and, second, the contention that sectors important for development, such as industry and agriculture, banks to finance them.
expected to provide consumer loans, credit for small industries and cooperatives. A merchant bank, Merchant Bank Ghana (MBG), was set up in 1972 as a joint venture between ANZ Grindlays, the government and public sector financial institutions, with the former having a 30% stake. To fill the perceived gaps not served by the commercial banks, especially for long term finance, three development finance institutions (DFIs) were set up: the National Investment Bank (NIB), in 1963, to provide long term finance for industry; the Agricultural Development Bank (ADB) in 1965 and the Bank for Housing and Construction (BHC), in 1974, to provide loans for housing, industrial construction and companies producing building materials. The DFIs mobilised funds from deposits as well as from government and foreign loans and undertook commercial banking activities as well as development banking.

The government did not nationalise the two pre-independence foreign owned banks - Barclays Bank and Standard Chartered Bank (SCB) - This had been established in Ghana during the colonial period, but it did acquire 40% equity stakes in the banks following an indigenisation decree enacted in 1975 (which was applied to all large scale industries).

4.3.2 Interest Rate and Credit Directives

The BOG determined the structure of bank interest rates, including minimum interest rates for deposits and maximum lending rates. Priority sectors, such as agriculture, received preferential lending rates: in some cases these were lower than the minimum savings deposit rates. The structure of interest rates set by the BOG made no allowance for loan maturity or risk; indeed incentives for banks to extend credit were often perverse because riskier sectors such as agriculture were accorded a preferential rate. Nominal interest rates were held below prevailing inflation rates in most years and, when inflation accelerated in the second half of the 1970s and early 1980s, real interest rates were highly negative (Sowa, 2003). A Cooperative Bank had been set up in 1946 to serve cooperatives in the cocoa growing areas, but it was temporarily closed down in 1961 for political reasons, and its assets and liabilities transferred to GCB in the following year (Sowa, 2003).

Sectoral credit guidelines, based on an annual credit plan drawn up by the BOG, were imposed on the banks to channel credit towards the priority sectors of agriculture, manufacturing and exports: these usually took the form of maximum permitted percentage increases in the stock of loans to each sector, with priority sectors accorded larger increases than non-priority sectors (Sowa, 2003). Since 1981 an additional regulation stipulated that lending to agriculture should comprise a

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65 A Cooperative Bank had been set up in 1946 to serve cooperatives in the cocoa growing areas.
66 The ADB was originally called the Agricultural Credit and Cooperative Bank.
67 See Brownbridge and Gockels, 1996
minimum of 20% of total loans, with shortfalls to be transferred to the ADB. Foreign companies were required to obtain BOG permission to access loans from domestic banks (Brownbridge and Gockels, 1998).

4.3.3 Prudential Regulation and Supervision

The 1970 Banking Act provided the regulatory framework for the banking industry. This imposed minimum paid up capital requirements for foreign and locally owned banks of C2 million and C0.5 million respectively (the latter was subsequently raised to C0.75 million). The minimum capital requirements were worth very little by the early 1980s because of inflation. At the end of 1983, the minimum paid up capital for a local bank was equivalent to only $16,000 (Brownbridge and Gockels, 1996).

Banks were also required to maintain capital and reserves of at least 5% of their total deposits (rather than risk assets which would be more relevant as an insurance against insolvency). The capital adequacy requirements were in any case largely meaningless because of the absence of clear accounting rules regarding the recognition of loan losses, provisioning for non-performing assets and the accrual of unpaid interest. The true state of banks' balance sheets, including the erosion of their capital as a result of loan losses, could therefore be concealed. Although the Banking Act did provide some rules to constrain imprudent behaviour by banks, penalties for infractions were minimal. There were also important regulatory omissions, such as limits on single borrower loan exposures.

A Bank Examination Department (BED) was established in the BOG in 1964 but its activities were largely confined to ensuring that banks complied with allocative and monetary policy directives, such as sectoral credit directives, and reserve requirements, rather than prudential regulations. The BED also lacked adequate resources to monitor and inspect the banks. In the early 1980s it had only five professional staff, of which only two had any training in bank supervision. On site examinations were infrequent and off site supervision was impeded because of deficiencies in bank reporting (ie the submission of financial data by the banks to the BOG). Hence the BED lacked the information necessary to evaluate the condition of banks' asset portfolios, their profitability and solvency (World Bank, 1986).

4.3.4 Impact of post-colonial government Policies on Banking Markets

The pre-reform policies of financial repression and public ownership of banks had important consequences for the banking system. Financial depth collapsed, and with it the ability of the banking system to supply credit, including to the priority sectors which financial policies aimed to
support. With the exception of those banks which retained foreign equity participation (ie Barclays, SCB and MBG), the banks all became insolvent as a result of bad debts and investments in commercially unsuccessful ventures (Epstein and Heintz, 2006). A World Bank study of the Ghanaian banking sector (World Bank, 1988) concludes that it was characterized by (a) inefficiency and high operating costs, (b) huge non-performing loan portfolios, (c) inadequate provisions for loan losses, (d) insolvency of the banking system, (e) capital inadequacy, and (f) inflated profits. The banking sector experienced deterioration in its performance during the country’s economic decline in the late 1970s and early 1980s. For example there was inefficiency of deposit mobilization by the banking system attributed to inferior quality of a number of commercial banks’ customer services (Antwi-Asare, 2000). Additionally, the limited scope of financial instruments and banking services discourages increased savings mobilization. It is also argued that banks in general find it unnecessary to innovate if they do not face any stiff competition from within or from outside (Khalid, 2006).

The lack of adequate prudential regulatory enforcement and supervision of commercial banks has also impacted negatively on the sector as less attention was paid to the provision of required reserve and capital requirements (Sowah, 2003). The consequence has been the insolvency of many banks in Ghana and other sub-Saharan African (SSA) countries. A World Bank Development Report (1989) indicates that regulation and bank supervision in developing countries should emphasize compliance with monetary policy and foreign exchange guidelines. Bank supervision should promote banking sector’s safety, stability, and efficiency.

4.3.5 Lending to Priority Sectors

Although financial sector policies aimed to support priority sectors through the use of sectoral credit guidelines and preferential interest rates, the supply of credit to these sectors declined precipitously in real terms. Credit to the whole of the non-government sector (which included both priority and non-priority sectors) amounted to only 3.6% of GDP in 1983, having fallen from 9.8% in 1977 (Brownbridge et al, 2000). The main reasons for the decline in credit supply were the fall in financial depth discussed above combined with crowding out by the government’s borrowing requirements, which reduced the aggregate volume of funds which banks had to lend to all non-government borrowers, including public enterprises. The government took 87% of net domestic credit in 1983.

While the total volume of bank lending fell, the sectoral credit directives were not always effective in ensuring that the desired sectoral distribution of credit was realised. Although credit to agriculture usually exceeded the stipulated minimum of 20% of total loans, there is anecdotal evidence that agricultural loans were diverted to other uses, such as trading. Credit to other priority sectors often
fell short of the maximum permitted under the credit ceilings while that to non-priority sectors often exceeded their ceilings (World Bank, 1986).

Banks were discouraged from allocating their available funds to priority sectors because of the lending rate controls which made no allowance for the risk of lending, or for transaction costs. Banks had strong incentives not to extend credit to potentially risky borrowers but to invest in government securities instead, since the latter offered the same, or almost the same, interest rates, but unlike the former were both liquid and virtually risk free (Aryeetey and Kanbur, 2007).

4.3.6 Financial Distress among Public Sector Banks

Financial distress afflicted all the public sector banks in the 1980s. The DFIs appear to have run into serious difficulties first, while the emergence of distress in the two main commercial banks - GCB and SSB - was delayed until the mid-1980s. All the banks were rendered insolvent by non-performing assets (NPAs) and had to be restructured in 1989-91, when a total of C62 billions of NPAs was identified in the banking system and replaced by BOG bonds or offset against liabilities of the banks to the BOG or the government. Loan losses would probably have been much greater had not lending been curtailed by the high liquid reserve requirements and credit ceilings imposed in the 1970s and 1980s. The DFIs also incurred heavy losses from foreign exchange exposures: they had converted foreign currency liabilities into domestic currency assets without providing for the risk involved.

The main reason for the losses incurred by the public sector banks was that they had been pressured into extending finance to unbankable projects to meet developmental and political objectives. The banks were very vulnerable to political pressure because the government had the authority to appoint and dismiss the banks’ executives and managers. The economic crisis and the radical changes in economic policy implemented during the 1980s also contributed to the deterioration in the banks’ asset portfolios. Some of the projects financed by banks were closed down because foreign exchange to purchase inputs was unavailable. Many importers, almost all of the NPAs had been incurred by banks wholly owned by the public sector: Barclays, SCB and MBG accounted for only 4% of the NPAs transferred to NPART (Sowa, 2002). The total assets of all the banks at the end of 1989 amounted to C316 billion: hence NPAs accounted for almost 20% of the banks’ total assets. Aggregate capital and reserves of the banks was negative C2.4 billion at the end of 1989 (Bank of Ghana, 1992,) to whom letters of credit had been extended by the commercial banks, were unable to meet their obligations following the large exchange rate devaluations which began in 1983.

Corruption and fraud contributed to the scale of the banks’ losses with politically connected borrowers being able to access unsecured loans which would not have been given to them on
commercial grounds and to avoid pressure to repay. For example, under the Acheampong military
government loan applicants obtained notes from military officers and took these to bank managers:
If the manager did not comply he risked being sacked over the radio (Brownbridge and Gockels,
1996). Many of the BHC’s bad debts had been extended to military personnel. In addition some of
the banks’ staff lacked the necessary qualifications and expertise because recruitment was
influenced by nepotism and political influence.

The public sector banks continued in operation throughout the 1980s despite the poor quality of
their asset portfolios. GCB and SSB were able avoid liquidity shortages partly because the very high
reserve requirements imposed in the 1970s and the credit ceilings in the 1980s forced them to hold
large volumes of liquid assets. But the DFIs, whose asset portfolios were both longer term and more
badly impaired than those of the commercial banks, and which had the additional burden of foreign
currency denominated liabilities, were worse affected by financial distress and suffered liquidity
shortages in the early 1980s.68 Both the BHC and NIB required injections of equity and loans from
the BOG to maintain liquidity and boost capital, but this only allowed further large losses to be
incurred in the second half of the decade.69 The true state of the banks’ balance sheets was
concealed by the failure to make adequate provisions for NPAs and to suspend accruing unpaid
interest as income. Hence banks appeared solvent, according to the data in their published accounts,
(even though the capital adequacy levels of some banks were very low) when appropriate
accounting procedures would have revealed that losses had completely eroded capital. The extent of
the financial distress in these banks was only revealed when diagnostic studies were carried out in
1987 as part of the preparations for the Financial Sector Adjustment Programme (FINSAP).

However, the banks with foreign equity participation (Barclays, SCB and MBG) avoided incurring
significant levels of loan losses and were generally profitable.70 Despite the government equity
stakes in these banks and the credit directives issued by the BOG, they were able to resist most of
the pressure to extend loans to non-creditworthy borrowers. They maintained conservative lending
policies with loan applications evaluated according to strict commercial criteria. Foreign ownership
appears to have provided some protection against government interference in lending decisions

68 By the end of 1983, the BHC and NIB had arrears rates of around 85% and 52% of their respective asset portfolios. After
making provisions for arrears in 1984, the NIB recorded a loss which more than wiped out its capital and reserves (World
69 The NIB and BHC each received C880 million from the BOG in the form of equity and loans in 1983/84 (Broenbridge and
Harvey, 1998).
70 Bank of Credit and Commerce, which also had foreign ownership, did suffer from financial distress in 1991: see section 6
below.
which was so pervasive in the public sector banks. Although the foreign banks had to comply with
credit guidelines, they were able to identify the more creditworthy borrowers within the priority
sectors to lend to; usually the larger established private sector companies which had a wide range of
business activities in different industries. Where loans were made to riskier sectors such as
agriculture, Barclays and SCB protected their balance sheets by using BOG credit guarantees. In
addition the SOEs - a major source of bad debts - were given instructions to bank with GCB, thereby
allowing the foreign banks to avoid this sector.

4.4 Financial Sector Adjustment Programme (FINSAP)

The period 1983-1988 was an era of crisis in the financial system in Ghana. High default rates had
rendered most bank assets non-performing, the high rates of inflation had wiped out the capital
base of most banks, and the weakened confidence in the financial system had adversely affected
bank deposits. These affected the ability of the banks to perform their intermediation function
properly. This also affected the recovery effort initiated under the ERP. Thus, in 1988, a
comprehensive Financial Sector Adjustment Programme (FINSAP) was launched. The FINSAP was
financed with an adjustment credit from the World Bank, with co-financing from Japan and
Switzerland. The Government of Ghana also contributed by converting its loans to the banks into
equity and by paying government guaranteed loans to the state-owned-enterprises (Booth et al,
2010). The primary justification underlying these reforms was the potential to reduce systematic
sources of inefficiency in the banking sector. These regulatory reforms have resulted in corporate
governance changes, which can be studied at three distinct levels (World Bank, 1996).

The central bank embarked on financial sector reforms characterized by liberalization, prudential
regulations and institutional strengthening of the banking industry as part of financial sector
structural program (FINSAP). The primary justification underlying these reforms was the potential to
reduce systematic sources of inefficiency in the banking sector. These regulatory reforms have
resulted in corporate governance changes, which can be studied at three distinct levels (World Bank,
1996). The Government of Ghana also contributed by converting its loans to the banks into equity
and by paying government guaranteed loans to the state-owned-enterprises. The financial reform
involve institutional restructuring, enhancement of the legal and regulatory framework for banking
operations, and liberalizing interest rates. These were carried out in phases. FINSAP-1 covered the

The major objectives of FINSAP-1 were: (1) to review the legal and regulatory environment and
amend the existing Banking Acts and Laws; (2) restructuring the banking sector to make the banks
viable and efficient; and (3) revitalize the financial sector by creating new institutions. FINSAP-2 and 3 were to continue with the restructuring and privatisation of the financial sector.

4.4.1 Liberalisation of Interest Rates and Credit Directives

Under the financial reform interest rates have been deregulated. This move was in part to encourage competition among the banks. But, the deregulation of the interest rate was also to conform to the new form of financial programming Ghana was following under the Structural Adjustment Programme (SAP). Under the SAP, Ghana was using the money supply as the nominal anchor. This implied that the price of money (the rate of interest) should be determined by market forces. The move towards interest rate liberalization was a gradual process. The first distinctive move was the abolition, in September 1987, of the maximum and minimum deposits, except the minimum saving deposit rate, which was temporarily maintained at 12%. In February, 1988 minimum lending rates for commercial banks were also abolished and by March of 1989 commercial banks were given the right to determine their own rates and display them in their banking halls. In November 1990, there was further liberalization of the financial sector by the abolition of 20% mandatory lending to agriculture. Thus by the beginning of 1991 the financial sector was almost liberalized. The bank specific credit ceilings, which had been the main instrument of monetary control employed during the ERP, were removed in 1992, and replaced with an indirect market based system of monetary control involving the weekly auctioning of TBs and other government and BOG securities, backed up with statutory cash reserve and liquid asset requirements (Alexander et al, 1995). Hence by the early 1990s banks were free to price deposits and loans and to allocate loans according to market criteria, although the very high reserve ratios imposed by the BOG were a major constraint on the volume of credit they were able to extend.

The liberalisation of controls over interest rates and credit allocation, together with the adoption of a more commercially oriented approach to lending by the public sector banks, should enhance the efficiency of credit allocation: i.e. enable banks to direct credit towards those borrowers capable of generating the highest rates of return. It is likely that credit allocation has improved - the reduction in the level of banks’ NPAs noted in section suggests that banks are generally avoiding lending to commercially unviable projects - although this is probably due more to the institutional reforms undertaken by the public sector banks than by liberalisation of administrative controls (Sowa, 2002).

The main constraint to an increase in the efficiency of credit allocation by the banks has been macroeconomic instability, as in several other African countries undertaking financial sector reforms. Large fiscal deficits, financed partly through domestic borrowing, and unsterilized balance of
payments surpluses have led to relatively high and variable rates of inflation and high nominal interest rates in the 1990s (Sowa, 2003).

Although ex post real lending rates have not always been very high (and sometimes been negative), the combination of nominal lending rates of up to 39% and high but unpredictable inflation entails considerable risk for borrowers. Consequently loan demand has been depressed while the banks have been reluctant to expand their lending, instead investing in government and BOG securities. Government securities have offered the banks returns which have often been comparable to prevailing lending rates, without the risk involved in lending to the private sector. Bank lending has also been constrained by the high reserve ratios imposed by the BOG in an attempt to restrain monetary growth. Bank lending to the private sector has remained at very low levels since the FINSAP began, amounting to only 5.3% of GDP in 1994 (Aryeetey and Kanbur, 2007).

4.4.2 Regulatory and Legal Reforms

The regulatory environment for the Ghanaian banking sector has experienced some major changes over the years. Firstly, up until the financial sector reforms, Ghanaian banks were governed and regulated by the ‘old’ Banking Act which was enacted as post-independence policy measure in 1967. The Act did not provide for the prudential regulation and supervision of the banking sector. As was the case with other developing countries, the 1967 Banking Act was enacted at a time when all commercial banks in Ghana were either state owned and or foreign owned (subsidaries of large international banks) (Brownbridge and Harvey, 1998).

The 1967 Banking Act had no provisions regarding ownership limitations on the amount of shareholding that an owner could have, nothing on the maximum ratio of shareholder funds that could be lent to any one borrower or guidelines on insider lending, no definition of risk assets or the amount of capital required to support bank lending. Disclosure requirements were limited to irregular reporting of accounts, until the amendment of the Banking Act under the PNDC regime (Zoprklui, 2001). The Act had no provisions for the inspection of banks except where a case could be made for an enquiry into fraudulent or other criminal activity.

The Banking Law (PNDCL 225) was revised in 1989. The innovations in the new law included (i) the tightening of risk exposure limits, (ii) establishment of tighter capital adequacy ratios, (iii) strengthening of accounting standards and making them uniform for all banks, (iv) broadening the scope for audits of the banks, (v) imposition of stringent reporting requirements, and (vi) improvement of on-site and off-site supervision of banks by the Bank of Ghana. A revised Bank of Ghana Law (PNDCL 291) was also enacted in 1992 to give more supervisory powers to the central
bank. These two laws together provide the legal and regulatory framework for the banking business in Ghana. In order to bring more financial institutions under the purview of the Bank of Ghana a Financial Institutions (Non-Banking) Law (PNDCL 328) was also enacted in 1993. This law covered the activities of discount houses, finance houses, acceptance houses, building societies, leasing and hire-purchase companies, venture capital funding companies, mortgage financing companies, savings and loans companies, and credit unions.

4.4.3 Financial Restructuring

The reforms also involved management and financial restructuring of the banks. New boards were created for most of the banks and there were shake-ups in the top management positions as well. Financial restructuring involved in the main the recapitalization of the banks with equity injection where liquidity was low, and the cleaning up of their balance sheet of non-performing assets. All state-owned banks at the time have undergone complete sector restructuring. The restructuring of the public sector banks began in 1990, and involved balance sheet restructuring and reforms to their management and operating procedures. For each of the financial reforms were examined to determine which banks implemented the restructuring measures in Ghana. The foreign banks (BBG and SCB) have undergone limited financial restructuring, because they were generally sound and unaffected by the liquidity problem that engulfed all the state banks (Table 4-3).

4.4.4 Financial Restructuring and Recapitalisation

To deal with the extent of non-performing assets at the banking institutions, the government encouraged debt restructuring in all commercial banks. In 1989, the Non-Performing Assets Recovery Trust (NPART) was established to clean up the commercial banks’ balance sheet by taking over all the banks’ NPLs. The creation of this unit was necessary to deal with the impaired assets of banks that were transferred from government-owned banks to asset Management Company. Most of the NPAs were transferred to the Non-Performing Assets Recovery Trust (NPART) in 1991. Balance sheet restructuring was necessary because the banks were insolvent and the magnitude of their NPAs was too large for them to be able to restore adequate levels of capitalization from future profits (Woldie et al, 2008). Most of the NPAs were transferred to the Non-Performing Assets Recovery Trust (NPART) in 1991. The NPAs included non-performing loans, letters of credit and equity investments which yielded no income. Non-performing loans amounted to C32 billion, representing 41% of all outstanding loans to the non-government sector (Kapur et al, 1991). Of the C50.4 billion of NPAs which was eventually transferred to NPART in 1991, GCB, BHC and SSB accounted for 28%, 25% and 25% respectively (Sowa, 2003).
Around 47% of the NPAs transferred to NPART had been extended to SOEs, many of which were not economically viable. The government had provided guarantees for some of the loans extended to SOEs but these had not been honoured. The other 53% of NPAs transferred to NPART were accounted for by private sector creditors or joint ventures between the private sector (including foreign companies), traditional councils and the banks. These were mainly medium and small scale companies in import substituting industries. Many of these projects were not properly appraised by the banks providing the finance, some were clearly only marginally viable, if viable at all, and the collateral provided had little resale value. Loan documentation was inadequate; as was loan monitoring and little effort was made to recover many of the bad debts.

Table 4-1 below shows the distribution of NPAs in the banking sector prior to the financial restructuring. Table shows also that, all banks in operation before 1990, undergone some level of corporate debt restructuring. However, the foreign banks constitute a paltry 2 percent of such losses, and that was the only restructuring measures implemented by them.

Table 4-1  Non-Performing Assets transferred to NPART by Banks (Cedis Millions)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount of NPAs transferred to NPART (Cedi Million)</th>
<th>% of total NPAs transferred to NPART</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCB</td>
<td>14,321</td>
<td>28.4</td>
</tr>
<tr>
<td>NIB</td>
<td>6,623</td>
<td>13.1</td>
</tr>
<tr>
<td>ADB</td>
<td>1,293</td>
<td>2.6</td>
</tr>
<tr>
<td>SG-SSB</td>
<td>12,585</td>
<td>25.0</td>
</tr>
<tr>
<td>BBG</td>
<td>689</td>
<td>1.4</td>
</tr>
<tr>
<td>SCB</td>
<td>462</td>
<td>0.9</td>
</tr>
<tr>
<td>Others (2)</td>
<td>14,459</td>
<td>28.6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>50,433</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Brownbrigde and Gockel (1996)

The NPAs included non-performing loans, letters of credit and equity investments which yielded no income. Nonperforming loans amounted to C32billion, representing 41 % of all outstanding loans to the non-government sector (Kapur et al., 1991). Of the C50.4 billion of NPAs which were eventually
transferred to NPART in 1991, GCB, BHC (liquidated) and SG-SSB (fully privatised) accounted for 28%, 25% and 25% respectively (Table 4-3). Loan losses would probably have been much greater had not lending been curtailed by the high liquid reserve requirements and credit ceilings imposed in the 1970s and 1980s (Brownbridge and Gockel, 1996).

The development finance institutions (DFIs) including NIB and ADB also incurred heavy losses from foreign exchange exposures: they had converted foreign currency liabilities into domestic currency assets without providing for the risk involved (Table 4-1). Unlike the state owned banks, foreign banks had only about 2.0 percent of the banking sector bad debt transferred to NPART. This signified a possible good corporate governance practices in foreign banks. The other two state owned banks (Cooperative Bank and Bank for Housing and Construction) did not survive the restructuring and were liquidated in January 2000.

### 4.4.5 Board, Management and Branch Restructuring

In addition to recapitalization it was necessary to reform the management and operating procedures of the banks to prevent bad debts from recurring, and to reduce operating costs. New boards of directors and executives were appointed to five surveyed banks, and turnaround plans formulated for each of the banks. Technical assistance was provided through Training arrangements with foreign banks such as the State Bank of India. The management restructuring involved also the overhaul of credit policies and strengthening of credit appraisal, loan monitoring and loan recovery systems, areas which had been particularly weak prior to the reform. Internal controls, inspection and audit were improved and budgetary and performance appraisal systems were introduced. Staff training programmes were enhanced. To cut costs, staffing levels were reduced by 38% between 1989 and 1992, and some bank branches were closed (Brownbridge and Harvey, 1998).

Firstly, state-owned banks have passed through phases of restructuring and downsizing. Funded by a $300 million loan from the World Bank, state-owned banks were subjected to restructuring and downsizing in 1997, apparently to cut financial intermediation cost and to enhance rate of return on deposits. Under this initiative five all banks operating at the time, launched their respective employee separation schemes and eventually 21,996 bank employees (or about 22% of their employees in 1996), were released under voluntary golden shake-hand schemes from these banks between July 1997 and December 1999. To further rationalize the cost structure about 26% of total branches in 1996 of these state-owned banks were closed down; some 814 loss making branches were closed down between 1997 and 2000 while 1,122 branches were closed down between 2001 and 2003 (Brownbridge and Gockels, 1996).
4.4.6 Institutional Restructuring and new Entrants

There was also institutional restructuring of the financial system involving the establishment of new institutions, mergers and liquidation of banks and divestiture of public sector shareholding in some of the banks (Sowa, 2003). Under the FINSAP, five new banks and twenty non-bank institutions were established. This was to encourage competition in the financial sector. In 1995, the Social Security Bank merged with the National Savings and Credit Bank. Under the institutional restructuring, the money market was formalized in the creation in 1991 of a second discount house, the Security Discount Company (SDC) to compete with the Consolidated Discount House (CDH), which was created in 1987.

There have been several new entrants into banking markets since the reforms began. Two merchant banks - Continental Acceptances (CAL) and Ecobank - began operations in 1990: both are joint ventures involving local public sector shareholders and foreign shareholders. A foreign commercial bank - Meridien Bank BIAO - was set up in 1992 with a minority local shareholding by the Social Security and National Insurance Trust (SSNIT). Two more merchant banks commenced operations in 1995: First Atlantic and Metropolitan and Allied (Zorklui, 2001).

Although licensing policy appears to be cautious, with applicants required to fulfil a number of conditions such as the submission of a feasibility study with five year financial projections, and to provide particulars of the promoters and prospective managers, the number of applicants for bank licenses since the reforms began, and the number of rejections, has not been large (Zorklui, 2001). This may be attributable to the weakness of the local business class and its lack of close links to the government: local investors may have been wary of entering a high profile sector such as banking without the protection of political connections. It is also possible that local investors' interested in financial markets have instead opted for less ambitious ventures, such as foreign exchange bureaux and NBFIs, in which the capital investment required is much lower than that needed to set up a bank.

In addition to the new entry into banking markets around 20 NBFIs, including leasing companies, finance houses, building societies and savings and loan companies, have been established during the 1990s. Many of these NBFIs accept deposits and extend credit, and therefore provide some competition for the services offered by the banks (Antwi-Asare and Addison, 2000).

Although the first rural bank in Ghana was established in 1976, the period of the financial sector reform saw a lot more of them coming up. This was to make up for the inability of the commercial banks to reach the rural areas and also to support agriculture. The rural banks were established as
small unit-banking operations, which are owned and managed by the rural communities. The central bank also owns shares in the rural banks and also acts as their supervisor. The prime aim was to mobilize savings from the rural folk and also to help cottage industries (Sowah, 2003).

4.4.7 The Capital Market

Under the FINSAP, Ghana’s capital market was established in 1989. The Ghana Stock Exchange (GSE) began full operations in November 1990 with 12 listed companies and one Government bond. Market capitalization within the first two years of operation increased from 30 billion cedis in 1991 to 43 billion cedis in 1992 while the listed companies to increase to 15. In 1993, the total market capitalization went up by about 120 percent to 95 billion cedis (Sowa, 2002). Thus, the GSE established itself as a profitable investment venture for the Ghanaian economy with total capital gains amounting to 123 percent at the end of 1993. There is no doubt that the Ghana Stock Exchange has the potential to attract long-term financing of investment in Ghana. During the seven years of its existence, the market has raised about 140 billion cedis and US$ 4.8 million through equities and bonds and the number of listed companies has risen to 21.

The companies listed on the Ghana Stock Exchange are governed by the Ghana Stock Exchange Act of 1990 and the GSE listing rules (2002). As at 2000, the GSE had a total of 23 companies listed on the exchange from different economic sectors. The listing requirements provide an extra layer of oversight with strict disclosure requirements for listed companies. The listing Rules also compels companies to include a statement in their annual reports indicating the extent to which they comply with the rules to enable shareholders and potential investors to evaluate how the principles have been applied.

4.4.8 Privatisation of the state owned Banks

Before the financial crisis, there were restrictions on foreign holdings of stocks of domestic companies. In accordance with the Banking law in 1989 Act, however, the Ghanaian government took major steps to reduce entry barriers to the financial sector. It lifted the limit on equity holding by an individual foreign investor in a domestic financial institution. This applies to foreigners engaging in any industry in the financial sector such as banking. This expansion was mainly due to the need to facilitate the financial sector restructuring undertaken in the wake of the crisis by the sale of a number of not-immediately-viable domestic banks to domestic and foreign bidders (Worldbank, 1996).
Before 1991, the banking sector of Ghana mainly served as a tool to implement the government’s development strategy. To this end, all domestic commercial banks were nationalized in 1972, and five state-owned commercial banks were set up after merger of these nationalized banks. These banks were used by the government to direct bank credit to some preferred sectors of the economy. Foreign banks were allowed to operate in this period, but they could not grow and extend operations due to regulatory restrictions on the number of bank branches. This resulted in five state-owned banks dominating the scene holding more than 90% share in banking assets in 1990; the rest of the share was held by 16 foreign banks. While the system of nationalized banks first proved effective at fostering more equal use of bank credit across the priority sectors, it later became clear that the banking system under state control creates economic inefficiencies.

Although the first rural bank in Ghana was established in 1976, the period of the financial sector reform saw a lot more established. This was to make up for the inability of the commercial banks to reach the rural areas and also to support agriculture. The rural banks were established as small unit-banking operations, which are owned and managed by the rural communities. The consequence of this reform is obvious. Today there are twenty-one private (14 foreign-owned and 7 private indigenous) banks in the country while there were just about three foreign and no private indigenous banks prior to the reform.

Privatisation of banks initiated through Divestiture Implementation Committee (DIC) alongside the removal of barriers to private bank formation. The policy has been aimed at creating efficiency through competition in the banking sector and the gradual privatisation of the remaining five state-owned banks (Zorklui, 2001). Under the banking law (based on the repealed 1989 law), a person is allowed to hold any amount of shares in a commercial bank. The DIC was established to conduct exit strategy for the government to divest its ownership in all the banks. Until 1994, government had total control of all the banks, except SCB and BBG, in which it holds 40% percent each. The lowering of entry led into the granting of licenses to the private sector participants to register financial institutions. Generally speaking, the number of banks rose from 14 in 1989 to 26 in 2010. The increase in foreign participation in the financial sector through acquisition and foreign direct investments (FDIs) has led to a high degree of foreign ownership with the increasing stakes and foreign management control of domestic banks (Antwi-Asare and Addison, 2000).

4.5 Post-FINSAP banking law and prudential supervision (2004)

Basically, bank regulation can be classified as economic and prudential. The former comprises restriction on interest rates, credit allocation and on financial market entry similar to the pre-FINSAP
era. These are also largely the subjects of financial liberalization (Jalilian et al., 2007). Prudential regulation and supervision on the other hand, aims at ensuring the safety and soundness of financial institutions and hence at preventing financial crisis (in particular among commercial banks), by examining capital adequacy, asset quality, management, internal controls and audit, earnings and liquidity (Cook and Kirpatrick, 1997). For example, the Banking Act 693(2004) was enacted provided the legal framework for prudential supervision of the banking sector. Apart from the legal and regulatory issues, the 2004 law dealt with all the internal mechanism of the bank (appendix IV).

4.5.1 Internal Mechanism

The banking law re-enforced the company code, 1963 (Act 179) in its preamble and where there is a conflict between the two laws, the banking law prevails (s.1 Act 673).\textsuperscript{71} Based on the Bank of Ghana report (guidelines), the fit and proper test has been applied to bank owners, directors and top managers. In addition to this test, Bank of Ghana has formed a coordination network with the offices of the Attorney General and the National Security to prevent any form of banking crimes. The provision also specifies the regulations governing duty of care, the violation of which may lead to criminal liabilities and cases of directors’ liabilities.

4.5.2 Owners and Controllers of the Bank

Fiduciary requirements were tightened under the banking Act 673 as amended Banking Act 738. Bank ownership is regulated and shareholders in addition to the above requirements are to satisfy the bank industry entry requirements as outlined in the s.3-s.22 of the banking Act 673 and amended banking Act 738. In accordance to general corporate law perspective, shareholders of banks have the same rights and obligations with those of other forms of corporations. However, some specific Controllers’ (managers) requirements must be fulfilled by the shareholders of banks. For example, controlling shareholders have to pass the fit and proper test conducted Bank of Ghana and meets the minimum capital requirements; otherwise they must give their approval for being merged with other banks (sections 34 - 40).\textsuperscript{72}

Unfit people are barred by the law from holding positions in banks. For example top executives of banks cannot be those who have been dismissed from public offices due to fraud of have been

\textsuperscript{71}Under this law, company’s separate legal entity and the role of board of directors has been affirmed by the article one of the banking law (Act 673).

\textsuperscript{72} See Appendix IV.
through bankruptcy. Although the law allowed appointment of the members of the BOD to be made by a general meeting of shareholders, the candidates must pass the fit and proper test and be approved by the BoG. The Board of Directors should comprise at least one non-executive or an independent member. The Board of Directors nominates executive and non-executive members, while independent, non-executive directors are dictated by the General Meeting. However, the law is silent on the specific number of non-executive directors and also offers no definition of the term 'non-executive, independent directors'. The BoG issued guidelines (best practice) from time-to-time not only in filling in the gaps but also supplementing the provisions in the law. For example, banks were urged to have at least more non-executive directors than executives on their boards.

### 4.5.3 Management Issues

The sector laws (Banking and security) defined the functions and responsibilities of boards of directors quite clearly before the financial sector reform in the Company code (Act 179). These functions and responsibilities generally included reviewing and making final decisions on appointments of senior management, compensation for senior management, budgets, financial statements, corporate strategies, major transactions, disposal of key assets, changes to capital structures, disclosure processes, risk management policy, and related-party transactions (s.196 – 209 of Act 179).

### 4.5.4 Audit and Information disclosure

To improve the effectiveness of internal audit and control procedures, the BoG announced guidelines that specify the responsibilities of internal auditors, the scope of auditing, and BoG reporting requirements. The provision for internal audit and control cover issues including the procedures for receiving, paying and lending, creating contingent liability, investing in securities, and selling assets (s. 70 – 81 of Acts 673).

The banking law has a provision on information disclosed to the regulatory agencies and the stakeholders of the Ghanaian banks. Prior to the reforms, the accounting practice was done in line with those of advanced countries. Significant changes had developed during the reform era. These are disclosure of consolidated accounts and off-balance sheet materials. The regulator (BoG) provided the banks with guidance for reporting, manual of accounting. Compliance to content,

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73 Potential managers are subjected to fit and proper test. This involves the investigation and due diligence conducted by the National Security and Bank of Ghana. In addition, top executives must have a good ethical business background with a commendable work record and no record of imprisonment (s.88-89 of Act 673).
accuracy and time is enforced as part of the reform measures and accordingly enshrined in law (Appendix VII).

The law directed *inter alia* to secure that: all open positions stemming from transactions involving market risk are reconciled at least once every calendar month; all transactions are properly recorded and filed so that *ex post* inspection is facilitated and reproduction of all transactions in chronological order is made possible. All financial statements of banks must be certified by a BoG approved external auditor who is a member of the Ghanaian Accounting Association. External auditors are required to provide an annual auditors’ competency, and unusual lending practices. The introduction of manual of accounting for external auditors; guide for reporting Institutions and IFRS have improved the transparency and reporting quality of banks (s. 81 of Acts 673).

Another area in which significant improvements have been made in relation to information disclosure is the provision of information about directors. Shareholders need to have accurate information on directors and how they perform as directors. The items for which information must be disclosed have also been expanded significantly. In addition to the usual items such as financial information, information on such items as corporate governance structure and practices, education and professional experience of directors and key executives, remuneration of directors and key executives, any deviation from corporate governance codes, and forward-looking statements of the company are required.

### 4.5.5 Lending to or investing in related parties

Special attention is granted to the conduct of transactions with persons maintaining a 'special relationship' with the bank. BoG has also enhanced regulations governing related-party transactions and now requires management to fully inform shareholders about all related-party transactions involving money or assets that exceed a certain level. Thus, Related-party transactions are required by law to be disclosed to BoG. Individual who are the executives or major shareholders and their close family members are barred, unless approved by the Bank of Ghana. Under the regulation, banks are prohibited to lend to insiders who are the executives (directors and managers) and major shareholders without the knowledge of the BoG. Insiders also include executives’ immediate family and affiliated companies in which they own more than 30% of the shares. A bank is allowed to lend to or invest in companies in which the insider holds less than 30% of the shares. However, such
4.5.6 Bank Supervision

The BoG’s desire to maintain strong banking regulatory system is based on maintaining further enhance by s.51 – 69 of Act 673 under powers of supervision and control. The present day on-site or off-site supervisory guidelines are implemented to judge and evaluate the functions of banking organisations in Ghana. This systematic rating framework for banks helps the central banks to take follow-up measures to ensure compatibility and also to ensure public confidence towards the banking system.

Offsite monitoring systems complement examinations’ focus on the bank’s current condition, e.g., reform implementation status, deposit, credit, income, and capital, and are designed to accomplish a number of objectives. Foremost, they serve as an “early warning device” to detect emerging bank financial problems. The success of an offsite supervision system hinges on several elements. First, the type and time of the data required by BOG is displayed in appendix VII. Second, the technology used to capture the data and compile the comparative ratios, trend analyses and percentile ranks relative to peers. ‘On-site Examination’ proceeds by ‘pre-on-site examination plan’ that comprises (i) overall planning, and (ii) specific planning. At the ‘overall planning’ level, the BSD draws a broad schedule of exams to be conducted in 12 months period. Whatever the condition of banks, banks are examined at least once in a year based on intelligent report. Pending on the decision of the BSD, the on-site examination could be either; (a) full scale, where all main risks and operations of a bank are examined, or (b) limited scope and specialized examination that covers only certain areas of risk (e.g. asset quality) and specific area of bank operation (e.g. management information system). The examination could be an announced or a surprise one.

4.5.7 Regulatory Enforcement

FINSAP regulatory enforcement suffered from two different fronts. First, penalties for violations that had been prescribed by law in 1989 were in many cases, insufficient to deter serious violations. Such penalties were clearly insufficient to deter criminal activities by managers and dominant shareholders that could give them illegal profits worth several hundred times the amount of the maximum fine. Second, the penalties prescribed by laws were rarely enforced (Appendix VI).
Penalties for various other criminal offenses committed by directors and managers have also been substantially increased. Corporate directors who fail to carry out their fiduciary duties properly may also be subject to other forms of penalties in addition to criminal penalties and civil liabilities. Class action suits can be a more effective deterrent to violations, as they give a strong pecuniary incentive to law firms, which can earn substantial amounts of money by representing minority shareholders in suits against directors, but class action suits are not currently available in Ghana. Ghana therefore has no specific provisions for class actions suits related to securities; but only for large firms and for a limited class of cases involving securities fraud, such as stock price manipulation, accounting fraud, and provision of false information (and audit-related violations are scheduled to be subject to class action suits).

Last part of the banking law (2004) provides that, directors are liable for their actions individually as directors and collectively as a board (Appendix VI). Penalties for insider trading and violation of laws pertaining to disclosure have already been explained. Note, however, that uncertainty about the interpretation and implementation of laws regarding the liability of directors appears to be significant in most of the countries under review. Few actual cases have occurred in which directors were found to have breached their duties and were forced to pay penalties. The permanent attachment of examiners to each bank discussed above made enforcement much easier. The operation of the bank of Ghana is partly financed by fees and fines, hence much more likely motivated to enforce the rules.

4.6 The Post Reform Performance trends in the banking sector of Ghana.

This section gives an overview of the banking sector performance data before and after the financial sector reform (FINSAP). The results provide evidence on the performance across banks in operation before and after FINSAP. CAMELS’ framework of financial indicators was used to compare the data before and after FINSAP was implemented, using bank level data from 1989 to 2008. Depending on data availability, this period is further broken up into two equal sub-periods, to correspond to the pre-financial sector reform period 1989-86, and the period from 1990 to 96 during which the Banking Law (1989) was in force. Most banks have used the new accounting system since 1989. This has standardized entries and allows greater comparative analysis.

Due to the data reliability issues, the study used 1989 to 2008 broadly to examine the trend in impact of the privatization measures in the key financial ratios. The detailed analysis based on each

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74 Otchere (2003) also analysed the pre and post privatization performance of privatized banks in low and middle-income countries.
of the six groups of CAMELS indicators is presented in this section. The CAMELS ratios are discussed separately for the banks in operation before and after the FINSAP III, where the sector experienced private sector involvement in banking business.

4.6.1 Capital Adequacy (CAR)

CAR shows the extent to which the capital and reserves of a bank provide coverage to its liabilities (mainly to its depositors). Prior to 1991, it was mandatory under the central bank directives to provide six percent of total demand and time liabilities as capital as capital but very few banks (two foreign banks) in Ghana did fulfil this condition. Almost all banks were undercapitalised and because of provision shortfall and deteriorating condition of assets quality, further erosion of capital engulfs the banking sector (Zorklui, 2000). Hence, risk-weighted capital adequacy requirements were introduced by the 1989 banking law reform and it is was mandatory for the banks to maintain ten percent of assets in the risk-weighted manner.

In 1989, this ratio was negative as all the state banks in this sector made huge losses. The subsequent recovery in this ratio can be explained by capital injection and improved regulatory and supervisory reforms. It is only after 1990 that improvement in the CAR ratio relative to the pre-privatization level can be seen for the public sector banks. However, the central bank had to provide capital support to the public banks in during the financial restructuring state to prevent further erosion of its capital base (see 4.5 above).

Table 4-2 summarised the banking level data on CAR over the period. Prior to the FINSAP II, the industry average was at negative 4.6 (Table 4.1). Industry CAR has risen significantly from negative 4.6% in 1989 to 10.9% at the end of 2008. It averaged 12.3% and 12.7% between 1990-1995 and 1996-1999 respectively and as at end-December 2005 it stood at 12.5%. The capital adequacy of the entire banking system is seen to have improved marginally as a result of the reform process since 1990.

Table 4-2: Trend Analysis of CAR (%)

<table>
<thead>
<tr>
<th></th>
<th>'89</th>
<th>'90</th>
<th>'91-95</th>
<th>'96-'00</th>
<th>'01</th>
<th>'02</th>
<th>'03</th>
<th>'04</th>
<th>'05</th>
<th>'06</th>
<th>'07</th>
<th>'08</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAR</td>
<td>(4.6)</td>
<td>10.9</td>
<td>12.3</td>
<td>12.7</td>
<td>12.0</td>
<td>11.4</td>
<td>11.3</td>
<td>11.8</td>
<td>12.2</td>
<td>11.4</td>
<td>10.5</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Sources: Calculated from Antwi-Asare and Addison, 2000; Annual reports from banks
The increase in CAR in 2008 may partly be due to the revised mode of calculation of the capital adequacy ratio stipulated in the Banking laws (both 1989 and 2004 provisions), which frees more capital for banks in risk assumption. Besides, the new entrants have increased their stated capital above the required minimum between 1995 and 2000, when most private sector banks were established.

When the ownership forms were compared, SOBs has been comparatively higher averages than the industry level (banking system) since 1997, indicating robust capital base of SOBs. The CAR ratio of state banks is well above the level of the FOBs and PIBs during the period under examination. At its minimum of 11.3 percent in 2001 (Table 4-3), the ratio was still considerably higher than the maximum levels attained by the private sector banks between 1997 and 2008.

**Table 4-3 Capital Adequacy across banks (Shareholders’ funds /total assets)**

<table>
<thead>
<tr>
<th>Banks</th>
<th>‘97</th>
<th>‘98</th>
<th>‘99</th>
<th>‘00</th>
<th>‘01</th>
<th>‘02</th>
<th>‘03</th>
<th>‘04</th>
<th>‘05</th>
<th>‘06</th>
<th>‘07</th>
<th>‘08</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>16.8</td>
<td>11.4</td>
<td>14.2</td>
<td>14.1</td>
<td>13.5</td>
<td>13.7</td>
<td>11.3</td>
<td>12.4</td>
<td>13.4</td>
<td>12.7</td>
<td>13.7</td>
<td>13.4</td>
</tr>
<tr>
<td>FOBs</td>
<td>11.2</td>
<td>11.3</td>
<td>9.9</td>
<td>8.5</td>
<td>10.8</td>
<td>10.9</td>
<td>11.6</td>
<td>10.0</td>
<td>11.7</td>
<td>10.8</td>
<td>9.0</td>
<td>9.7</td>
</tr>
<tr>
<td>PIBs</td>
<td>14.3</td>
<td>14.1</td>
<td>11.3</td>
<td>10.0</td>
<td>13.1</td>
<td>7.2</td>
<td>10.2</td>
<td>12.0</td>
<td>11.8</td>
<td>10.2</td>
<td>8.1</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Source: Calculated annual reports of banks

The capital adequacy of the newly established PIBs was substantially higher than that of FOBs. For example, in the early years of the operations of these banks, their level of capital adequacy was even better than that of the FOBs. As the deposit base of these banks widened in subsequent years, their capital to liability ratio started declining from 13.1 percent in 2001 to less than half of that by 2002 at 7.2 percent. However, after 2003 this ratio began rising again reaching nearly 10.5 percent, but slump back in 2007 and 2008 at 8.1 and 7.2 respectively.

The low figure in 2001 was partly due the losses incurred by the metropolitan and Allied Bank (-12.56%) and prudential bank (5.2%) in that year (Sowa, 2003). The capital adequacy of these banks improved considerably in 2003 when the well capitalized UniBank joined the ranks of the privatized banks, but the ratio still remained below the average for the entire banking system. The reduced figures in 2007 and 2008 could also be due to the increased competition that prevents the small private banks from making the enough profit to cater for the losses.
The foreign banks have had a fairly good CAR values and on few occasions perform at a marginal level or thin line. As the figures indicate, the CAR ratio for FOBs was the lowest of all the four groups of banks analysed here, reflecting the poor capitalization of some of these institutions (Table 4-3). The gains between 1997 and 2001 took a dip slightly below the required 10 percent in 2007 and 2008. The comparatively poor CAR was mostly due the losses incurred by the second largest bank (Barclays) and weak results posted by the other large banks (Standard chartered and Ecobank) in the years concerned.

The CAR for banks in the “state controlled (partially privatised or not privatised)” group appear to be very high possibly due to the fact that most of these banks particularly, were capitalised before divestiture. For example, unlike, in SCB and BBG where there was simply divestment (or denationalisation) of government shares, all the former state banks (including SG-SSB) were capitalised under FINSAP II. SG-SSB also benefitted from the new capital injection by the new controlling shareholder (Societe General).

4.6.2 Asset Quality

The asset quality of any financial institutions is an important determinant of its financial health namely its earning ability. The asset quality can be measured using indicators like earning assets to total assets and Non-performing loans to total advances (gross). A low bad debt to gross loans ratio is an indication of good asset quality, which is a mark of efficient banking. It was discussed in chapter two that, before the FINSAP II in 1992, many banks were saddled with huge nonperforming assets. The asset quality can be measured using indicators like earning assets to total assets and Non-performing loans to total advances (gross).

The result shows asset quality of the entire banking system as gauged by the ratio of earnings assets to total assets has seen much improvement as the result of the privatization. In fact, this ratio has declined in the latter half of the 2000s maybe due to the deterioration in the asset quality of banks (Table 4-4). It’s only after 1995 that significant improvement in this ratio was observed when earning assets reached 2,762 billion cedis nearly 74 percent of total assets.

Due to data limitations on loan write-offs the computation of the asset quality to provision for loan loss as a percentage of advances or loans for 1997 to 2008 was used. The data show that the banking industry’s provision for loans as a percentage of total loans declined sharply from 57.32% in 1989 to 26% in 2008 for the banking sector.
Similarly, the ratio of non-performing loans to total loans increased during the 1990, reaching their highest level of 23.2 percent in 1999. It is only after 2000 that an improvement can be observed in this ratio. The quality of loans and advances of the banking industry has improved tremendously over the years. This was reflected in a decline of the provision ratio (provision for bad and doubtful debts to gross loans and advances) from 18.19% at end December 2002 to 15.36% at end December 2003 and further down to 10.85% by end-December 2005. The non-performing loans ratio (calculated as the ratio of non-performing loans to total gross loans and advances) also fell from 22.73% at end December 2002 to 12.95% by end- December 2008. The level was however marginally above the prudentially acceptable limit of 10.00%. The improvement recorded in the quality of the loan portfolio was largely explained by the expansion in the credit base of the banking industry and to a lesser extent, recoveries.

In SOBs, deterioration was reportedly observed in the ratio of earning assets to total assets before the sector restructuring to over hundred percent. After the first wave of privatization in 1996, when private sector was involved in bank ownership, there has been some marginal improvement in asset quality, can be seen up to 2001, after which the ratio declines continuously hitting its lowest level in 2008, when only 82.8 percent of the total assets were earning as compared to 72 percent in 1997 when the privatization process was implemented in the banks concerned.
Table 4.5: Asset Quality across banks

<table>
<thead>
<tr>
<th>Banks</th>
<th>‘97</th>
<th>‘98</th>
<th>‘99</th>
<th>‘00</th>
<th>‘01</th>
<th>‘02</th>
<th>‘03</th>
<th>‘04</th>
<th>‘05</th>
<th>‘06</th>
<th>‘07</th>
<th>‘08</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>EA/TA</td>
<td>71.9</td>
<td>68.7</td>
<td>71.6</td>
<td>70.1</td>
<td>59.5</td>
<td>66.8</td>
<td>67.3</td>
<td>67.4</td>
<td>70.8</td>
<td>69.4</td>
<td>73.2</td>
</tr>
<tr>
<td></td>
<td>NPLs/GA</td>
<td>13.7</td>
<td>2.70</td>
<td>4.11</td>
<td>11.29</td>
<td>9.2</td>
<td>12.3</td>
<td>8.0</td>
<td>6.20</td>
<td>4.08</td>
<td>1.93</td>
<td>2.18</td>
</tr>
<tr>
<td>FOBs</td>
<td>EA/TA</td>
<td>77.3</td>
<td>71.6</td>
<td>66.7</td>
<td>68.0</td>
<td>66.2</td>
<td>58.5</td>
<td>66.1</td>
<td>63.0</td>
<td>70.9</td>
<td>70.0</td>
<td>68.7</td>
</tr>
<tr>
<td></td>
<td>PBD/GA</td>
<td>5.40</td>
<td>1.20</td>
<td>1.49</td>
<td>5.70</td>
<td>5.17</td>
<td>3.35</td>
<td>3.12</td>
<td>1.71</td>
<td>2.09</td>
<td>1.27</td>
<td>1.13</td>
</tr>
<tr>
<td>PIBs</td>
<td>EA/TA</td>
<td>54.3</td>
<td>67.3</td>
<td>57.6</td>
<td>63.2</td>
<td>63.6</td>
<td>55.8</td>
<td>64.0</td>
<td>67.6</td>
<td>71.8</td>
<td>71.0</td>
<td>66.3</td>
</tr>
<tr>
<td></td>
<td>NPLs/GA</td>
<td>6.30</td>
<td>2.27</td>
<td>1.76</td>
<td>1.27</td>
<td>4.74</td>
<td>8.48</td>
<td>4.10</td>
<td>3.92</td>
<td>3.81</td>
<td>3.78</td>
<td>2.15</td>
</tr>
</tbody>
</table>

Source: Calculated annual reports of banks

Another indicator of asset quality is ratio of non-performing loans to total loans. SOBs are seen to have an increasing trend in the ratio of NPLs to total advances (Table 4-5) between 1998 and 2002, indicating a decline in their asset quality. This can be mainly attributed to the decreasing amount of loans provided by the public sector banks on political grounds, in the 2000s. However, another factor responsible for the increasing quantum of nonperforming loans may be higher disclosure requirements prescribed by the central bank in the banking Act 673, which forced banks to reveal the true picture of their stuck up loans and investment decisions.

The ratio of earnings assets to total assets for the FOBs remained stable at around 58.8 percent throughout most of the 1990s (Table 4.5). However, a decline can be observed in this ratio towards the end of between 1997 and 2002. There was a slight increased, but stable performance between 2003 and 2008. Looking at the ratio of non-performing loans to total advances for foreign banks, the ratio remained stable at around 1 to 6 percent during most of the period. This ratio is considerably lower as compared to the local banks in the other two categories, reflecting the much lower rates of default and higher rates of recovery of the foreign banks.

The ratio of earning assets to total assets show a high level of fluctuation in PIBs during the period under study, with a low of 54 percent in 1997 and a high of 84.5 percent in 2008. Looking at the ratio of non-performing loans to total advances, again the ratio is considerably lower than that of public sector and foreign banks. The ratio shows a stable trend up to 2003 after which it starts rising again.
This may be due to the fact that the domestic private banks were established only after 1995 and therefore, it would take some years to see the effects of their lending policies.

4.6.3 Management Soundness

A major objective of the restructuring as part of the privatization drive is to streamline banking operations by upgrading staff and hiring new qualified staff. The growth of any financial institution is heavily dependent on the soundness of its management. Unlike the other indicators in the CAMELS framework, the measurement of management soundness of any financial institution involves a higher degree of subjectivity and is therefore not easy to quantify. Nevertheless, the ratio of total expenses to total income and earnings per employee are generally employed to determine management soundness.

The ratio of total expenses to total income for public sector banks increased significantly after 2002 (Table 4-6), showing the growing operating inefficiency in the management of these institutions. In 1989, before the start of the privatization process in the banking sector, total expenses of the industry were 60 percent of their total income, which had grown to well over 63 percent by 1997 after decline between 1990 and 2001 (Table 6.5). By 2008, a slight improvement in this ratio can be discerned.

Table 4-6: Trends in Management Efficiency (%)

<table>
<thead>
<tr>
<th></th>
<th>’89</th>
<th>1990</th>
<th>’91-95</th>
<th>’96-’00</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOC/TOI</td>
<td>59.5</td>
<td>43.2</td>
<td>36.7</td>
<td>38.7</td>
<td>38.8</td>
<td>46.2</td>
<td>49.5</td>
<td>50.1</td>
<td>59.1</td>
<td>59.6</td>
<td>62.5</td>
<td>56.9</td>
</tr>
</tbody>
</table>

Sources: Calculated from Antwi-Asare and Addison, 2000; Annual reports from banks

The increase in transaction cost ratio in the banking industry since 2001 can be interpreted to mean dwindling efficiency in the operation of banks. The ratio has risen from 38.7% in 2000 to 59.1% in 2005 might be due to rising operating cost of banks particularly technology and staff cost and dwindling income due to falling interest rates and competition in the industry.

The period 2001-2008 witnessed downward trend in profitability as seen in falling-out and ROE in the industry. The drop in profitability was partly due to several factors. These includes; High operating cost of most banks mostly from infrastructural cost (technology) and staff cost, as commercial banks increased working conditions to keep and poached skilled staff in the industry. Second, there is falling interest rates in the economy. This equally affected the bank lending rates to
fall drastically from 47% in 2000 to 25.02% in 2008 and reduction in Treasury bill rates (91-day) from 42% in 2000 to 14.9% in 2008 (ISSER, 2009). Most importantly, the drastic increase in number of commercial banks has contributed to the fall in profit margins, as competition as a result drive margins down. Finally, consistent with the increased competition, non-performing assets were also high due general macroeconomic instability particularly high interest rates and depreciation of the cedi leading to high loan default.

The below analysis was conducted from 1997 – 2008. At the firm level, the degree of efficiency gains varies from ownership form to form. For example, the newer banks display greater efficiency gains in terms of a reduction in transaction costs than do the other types of banks. The second indicator of transaction costs corroborates the findings above. The study shows that staff costs as a percentage of revenue, compares favourably with the above measures of operating costs.

**Table 4-7: Management Efficiency across banks**

<table>
<thead>
<tr>
<th>Banks</th>
<th>‘97</th>
<th>‘98</th>
<th>‘99</th>
<th>‘00</th>
<th>‘01</th>
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<th>‘03</th>
<th>‘04</th>
<th>‘05</th>
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<th>‘07</th>
<th>‘08</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOC / TOI</td>
<td>50.5</td>
<td>52.8</td>
<td>41.6</td>
<td>31.8</td>
<td>35.8</td>
<td>45.1</td>
<td>52.1</td>
<td>54.2</td>
<td>68.6</td>
<td>55.7</td>
<td>70.3</td>
<td>61.8</td>
</tr>
<tr>
<td>E/Emp</td>
<td>0.049</td>
<td>0.052</td>
<td>0.088</td>
<td>0.22</td>
<td>0.28</td>
<td>0.40</td>
<td>0.37</td>
<td>0.46</td>
<td>0.51</td>
<td>0.66</td>
<td>0.67</td>
<td>0.096</td>
</tr>
<tr>
<td>FOBs</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOC / TOI</td>
<td>42.5</td>
<td>41.9</td>
<td>44.1</td>
<td>37.1</td>
<td>38.6</td>
<td>43</td>
<td>45.8</td>
<td>47.3</td>
<td>49.8</td>
<td>54.5</td>
<td>58.1</td>
<td>63.8</td>
</tr>
<tr>
<td>E/Emp</td>
<td>0.086</td>
<td>0.11</td>
<td>0.21</td>
<td>0.39</td>
<td>0.051</td>
<td>0.55</td>
<td>0.80</td>
<td>0.82</td>
<td>0.92</td>
<td>1.03</td>
<td>0.102</td>
<td>0.155</td>
</tr>
<tr>
<td>PIBs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOC / TOI</td>
<td>68.7</td>
<td>58.9</td>
<td>62.9</td>
<td>55.0</td>
<td>71.2</td>
<td>53.5</td>
<td>56.2</td>
<td>59.6</td>
<td>50.3</td>
<td>64.8</td>
<td>65.8</td>
<td>71.1</td>
</tr>
<tr>
<td>E/Emp</td>
<td>0.052</td>
<td>0.077</td>
<td>0.084</td>
<td>0.158</td>
<td>0.176</td>
<td>0.24</td>
<td>0.28</td>
<td>0.38</td>
<td>0.54</td>
<td>0.69</td>
<td>0.062</td>
<td>0.089</td>
</tr>
</tbody>
</table>

Source: Calculated annual reports of banks

Consistent with the banking industry, the SOBs had seen some improvement in the indicators of management soundness in the early part of the nineties as the expenses to income ratio declined (Table 4-8). However, after 2007 a sharp increase in this ratio can be observed due primarily to the mounting expenses of some loss making SOBs.
This can be mainly attributed to an increase of 59,909 cedis billion in provisioning expenses against NPLs due to the enforcement of more stringent standards of classifying bad loans by the central bank, Bank of Ghana (See section 4.3 above). Though the total expenses had declined to around 32 percent of total income in 2000, this could not be sustained due may be to the competition from new banking and non-banking. On the other hand, earnings per employee – another measure of management soundness shows a steadily rising trend during the period under review. From GHC 0.49 billion in 1997, they grew by nearly 14 times to GHC 0.70 billion by 2002. One possible explanation for this can be the substantial reduction in the workforce as a result of staff restructuring exercise in all state owned banks where voluntary separation scheme were offered to their employees. Between 1997 and 2006, these banks were able to reduce their workforce from 5371 to 3681 through branch staff and branch rationalisation.

The management of FOBs is seen to be sounder than that of the other two groups of banks examined, as can be seen by the lower level of expenses to income ratio of these banks (Table 4-7). The total expenses as a percentage of total income declined from 42.5 percent in 1997 to 38.6 percent by 2001 (Table 4-7) after which there was very gradual increase in trend can be observed. Total expenses as a proportion of total income reached their highest point in 2008 when they represented 63 percent of total income. This can be attributed mainly to the mounting expenses of the loss making BBG (~7350 Billion cedis), which is the second largest bank in the industry. The earnings per employee of foreign banks were at a much higher level in comparison to the other two categories of banks (Table 4-7), reflecting the lean organizational structure adopted by these Bank compared to their local counterparts.

The management soundness of the PIBs as seen by the ratio of total expenses to total income shows a mixed trend during the period of study. Starting from just 69 percent in 1997, total expenses reached a peak of 71 percent of total income in 2001. On the other hand, the earnings per employee, another indicator for measuring the management soundness of any financial institution, showed a steady increase during the period under consideration. From just GHC 0.052 billion per employee, earnings increased more than thirteen times to GHC 0.699 million per employee by 2006.

The state banks, Ghana Commercial Bank, National Investment, Agricultural Development Bank and Merchant Bank seem to have weak credit culture. Evidence seems to suggest that foreign owned banks have better credit culture than locally owned banks in Ghana. The increase in bad loans of most of these banks, were attributed to the prevailing adverse economic conditions (high inflation and interest rates) making it difficult for most borrowers to pay back their loans.
4.6.4 Earnings and Profitability

For any financial institution to be viable in the long term, it has to be profitable. Earnings add to the capital base while losses result in the erosion of capital base. The most commonly used indicators for assessing profitability of a financial institution are the Return on Assets (ROA) and Return on Equity (ROE). Profitability may be considered a sign of management efficiency in generating higher returns on capital.

At the industry level, profitability, as measured by the indicators, has increased greatly since the financial sector reform. The profitability of the entire banking system recorded improvement since 1990 (Table 4-8). The industry registered negative ROA and ROE values in the late 1980s a revival in the profitability can be seen in between 1990 and 2001, but the values have been declining since 2002. In 1989, the banking sector recorded a negative profit, as exhibited by all the profit indicators.

Table 4-8: Trend analysis of Sector profitability (%)

<table>
<thead>
<tr>
<th></th>
<th>'89</th>
<th>'90</th>
<th>'91-95</th>
<th>'96-00</th>
<th>'01</th>
<th>'02</th>
<th>'03</th>
<th>'04</th>
<th>'05</th>
<th>'06</th>
<th>'07</th>
<th>'08</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>-3.5</td>
<td>5.5</td>
<td>3.4</td>
<td>5.3</td>
<td>5.3</td>
<td>3.8</td>
<td>3.4</td>
<td>5.7</td>
<td>3.1</td>
<td>2.8</td>
<td>2.4</td>
<td>2.2</td>
</tr>
<tr>
<td>ROE</td>
<td>-76.6</td>
<td>50.3</td>
<td>27.5</td>
<td>42.1</td>
<td>44.5</td>
<td>33.3</td>
<td>30.1</td>
<td>31.9</td>
<td>25.7</td>
<td>24.7</td>
<td>22.7</td>
<td>20.9</td>
</tr>
</tbody>
</table>

Sources: Calculated from Antwi-Asare and Addison, 2000; Annual reports from banks

In terms of the return on assets gross margin, the industry ratio increased from a negative ratio of -3.5% in 1989 to 5.5% in 1990. Similarly, the return on equity increased from -77% to 50% in 1990. The indicators declined at 5.5% (ROA) and 41.7(ROE) in 2001, and have been falling since to 2.2% (ROA) and 20.9 respectively by 2008.

Looking at the figures for the SOBs (Table 4-9) we see an increase in ROA in the early part of the late nineties after which their profitability deteriorated substantially over the study period. The increasing quantum of non-performing loans along with increased provisioning requirements and a decline in the proportion of earning assets affected the income generating capability of these banks. While on the expenditure side, the rising share of borrowing caused expenses to increase faster than income leading to reduced profitability.

Return on Equity reflecting the yield on holding bank’s capital showed mostly a declining trend for the state owned banks. Moreover, this ratio became negative in 1996 improving only after fresh capital was injected in two of the loss making nationalized banks.
Table 4-9: Earnings and Profitability across banks

<table>
<thead>
<tr>
<th>Banks</th>
<th>ROA</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>'97</td>
<td>'98</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>6.1</td>
<td>4.1</td>
</tr>
<tr>
<td>ROE</td>
<td>36.3</td>
<td>36.4</td>
</tr>
<tr>
<td>FOBs</td>
<td>ROA</td>
<td>5.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>50.4</td>
</tr>
<tr>
<td>ROE</td>
<td>27.0</td>
<td>2.7</td>
</tr>
<tr>
<td>PIBs</td>
<td>ROA</td>
<td>3.9</td>
</tr>
<tr>
<td>ROE</td>
<td>27.0</td>
<td>26.7</td>
</tr>
</tbody>
</table>

Source: Calculated annual reports of banks

For the PIBs, the return on assets shows improvement during the first half of the nineties (Table 9). Afterwards, the ratio started declining due to a drop in earning assets to total assets. The return on assets and return on equity for this group of banks, however, remained above those for the public sector banks and the privatized banks during the most of the years between 1990 and 2002. It ranges from a low of minus 1.5 percent in 2000 to a high of 0.4 percent in 2002. This can again be attributed to the poor performance of the BPI (MAB) and PBL in this area. The profitability of this bank started declining after 1997 and became negative in 2001 to 2002 due to the large losses of over GHC. 22967 billion made in two years, which offset the profits made by the other banks in the group.

The profitability of foreign banks was much stronger during most of the nineties. However, a sharp fall in the profitability can be seen in 2008 when the biggest of the foreign firms made losses, which negatively impacted on the group. The period 2001-2008 witnessed downward trend in profitability as seen in falling-out and ROE in the industry. The drop in profitability was partly due to several factors. These includes; High operating cost of most banks mostly from infrastructural cost (technology) and staff cost, as commercial banks increased working conditions to keep and pouch skilled staff in the industry. Second, there is falling interest rates in the economy. This equally affected the bank lending rates to fall drastically from 47% in 2000 to 25.02% in 2008.and reduction in Treasury bill rates (91-day) from 42% in 2000 to 14.9% in 2008 (ISSER, 2009). Most importantly, the drastic increase in number of commercial banks might have contributed to the fall in profit margins, as competition drives margins down.
The restructuring measures (discussed in above), private involvement in the banking sector and prudential investment may have partly contributed to the rapid turnaround. However, the increasing number of new financial organisations into the industry and consequent competition kept the profit margins low. Finally, consistent with the increased competition, non-performing assets were also high due general macroeconomic instability particularly high interest rates and depreciation of the cedi leading to high loan default.

4.7 Conclusion

The institutional settings discussed in this section are important in understanding the formal and informal rules, practices and organisational behaviour which could have been important in the evolution of ownership patterns and corporate governance mechanisms in the banking sector. This is in line with the institutional approach adopted in the previous chapter. In this regard, the institutional environment which constitutes formal and informal rules, regulations and enforcement mechanisms have the capacity to heavily influence the ownership structure corporate governance culture within banks.

Before 1989, the banking sector of Ghana mainly served as a tool to implement the government’s development strategy. To this end, all domestic commercial banks were nationalized in 1972, and five state-owned commercial banks were set up after merger of these nationalized banks. Over the past 20 years Ghana’s banking sector has undergone a remarkable transformation. Privatization and restructuring of state-owned banks and mergers and acquisitions of private and foreign banks have substantially changed the governance of the banking organizations. This structural change is generally attributed to financial sector adjustment programme [FINSAP]. While the relative decline in importance of state-owned banks has undoubtedly reduced their share in assets and deposits, it has also increased healthy competition between the banks to provide better financial services to their customers with significantly improved infrastructure.

The Ghanaian regulatory framework with regard to corporate governance of banks the Ghana Companies Code (1963), Banking Laws (Act 673 and amended Act 738), the Securities Industry Law, 1993 (PNDCL 333) (hereafter referred to as SIL) as amended, and the Membership and Listing Regulations of the Ghana Stock Exchange (GSE, 1990). The history of the Ghana banking sector has also been reviewed, from the establishment and the domination of state ownership until FINSAP in 1980 and 1990s after which private indigenous banks were registered. The privatisation and the 2004 regulation have also been detailed. The purpose of the historical review was to provide a
The chapter also presents the sector performance before and after FINSAP. These results highlight the superiority of foreign ownership compared to state ownership and are consistent with the agency theory which suggests that foreign banks are more able to mitigate agency problems that arise from the separation of ownership and control than in SOBs. Again the results also indicate a significant relationship between efficiency changes in one hand, and control relinquishment by the government. The FINSAP II era performance of the foreign banks has been generally good compared to their local counterparts. Thus, the benefits expected to result from reforms may not materialize under continued government control over banking operations.

The results show that the gains in profitability and efficiency are more significant for the banks in foreign control. For example, firms with foreign investors achieve an average improvement of in profitability, in efficiency and liquidity. For those firms with no foreign ownership, the gains in efficiency, performance is less significant while profitability decreased much more steeply. Environment and corporate governance may also explain performance improvements. In particular, the relinquishment by government of shares and or control to the private professionals could determine the gains observed after during the FINSAP and beyond. The effect of corporate governance cannot be overlooked, since there was performance difference across ownership forms. Dyck (2000) argues that corporate governance can explain the performance of privatized firms after the reform.
Chapter Five: Corporate Governance in Ghanaian Banks: Questionnaire Survey Findings

5.1 Introduction

The importance of corporate governance within the banking sector has already been highlighted in the literature reviewed earlier in this research. Ghana has suffered serious financial sector crisis before FINSAP and this underpins the need for good corporate governance as one of the mechanisms which can prevent bank crisis and protect stakeholder interests. Regulatory framework has been introduced in 1989 and implemented in 1990 that deregulates the sector and allowed private ownership of banks. In spite of the divestment of government shares and or control in bank business between 1995 and 2000, the industry continues to experience financial crisis culminating in the collapse of some public banks in 2000.

The later part of the last chapter analysed the financial performance of the banking sector before and after the financial sector reform (FINSAP), placing emphasis on the differences of the various ownership forms that emerged from privatisation. This however, gave an overview of the sector performance with little idea of corporate governance effect over the study period. The main objective of the chapter was to provide a general picture of corporate governance practices in banks before and after before divestiture and restructuring programmes in 1995 and 2000 (discussed in section 4.4 above). The opinions of the respondents on the effects of sector privatisation between 1995 and 2000, and the impact of 1989 and 2004 banking laws on corporate governance of banks have also been explored respectively. The rest of this chapter is organised as follows: the next section looks at the design of the questionnaire and the administration of the survey. The following section presents the results of the survey on ownership structure, the board of directors and opinion based responses on the effect of the post privatisation ownership (ownership changes) on corporate governance. The last section concludes by summarising the findings from the survey.

Although largely subjective, these opinion based responses are used to corroborate the main survey results and to analyse the collective observations of the respondents on the effect of the changes.
The text in this chapter is organised as follows. The next section details the research methods and questionnaire design. The following section provides an analysis of the result, covering firms’ ownership, board of directors, management, compensation and evaluation. These corporate governance areas were derived from a review of the literature on the privatisation of state owned banks in chapter 2. The last section concludes by summarising the findings from the survey. The results from this survey have also been used and referred to in several other chapters in this thesis.

5.2 Questionnaire Survey

The purpose of the questionnaire survey as a research method has been discussed previously in the methodology chapter. This section discusses the design of the questionnaire, the administration and response rate of the survey.

5.2.1 Questionnaire Design

Two types of questions were used; the first type asked the respondents to give factual information on relevant corporate governance issues, the second were questions asked the respondents to provide their opinions. The questionnaire consists of fact and opinion options. One was asked respondents to choose what they think was true and the other to rank what they identified/choose. Since the research looks at changes in corporate governance, a number of questions were designed to include choices concerning both situations in 1995 and 2000 (Appendix I).

However, a design involving asking questions relating to attitude and behaviour in earlier years, may mean some limitations in terms of response rate and reliability of the information provided by the firms. Ideally, a questionnaire survey regarding situations at two points in time should be conducted to the same enterprise twice, in 1995 and again in 2000. But this proved impracticable for this study. The limitation of human memory is improved in this research by cross checking data from questionnaire survey and subsequent face-to-face interviews. As shown in this and following chapters, the answers provided are broadly consistent. This means that the managers have to spend relatively more time completing the questionnaire. Given that managers in the banking sector are very busy people and privacy issues relating to bank information, managers may be reluctant to respond but this was counteracted by the Researcher’s long relation with the industry and three month attachment with the central bank prior to the survey.

Opinion answers provided by respondents are subjective and may sometimes be tempered with emotionalism which may affect their reliability. To mitigate these limitations, the responses on
factual questions were cross-checked with data collected from secondary sources and from interviews conducted at the banks. The opinion based responses were used largely to supplement the fact based survey results. In spite of this, analysis should bore in mind the issue of memory lapses due to inability to recollect past behaviour and practices. Some resulting bias cannot be ruled out, although there are no grounds for believing that the findings are highly unreliable – they are consistent with the with the interview findings and some existing studies. In order to capture the change in corporate governance after the privatisation, same questions (factual and opinion) were given to respondents of banks were in operation before the FINSAP III. This gives an idea of the corporate governance in the banking before and after privatisation. All the banks were involved on the question of the effects post privatisation regulatory reforms in in 2004.

5.2.2 Pilot Studies and Questionnaire Administration

A pilot survey was conducted to check the wording and relevance of the questions, to ascertain the time taken by respondents to complete the questionnaire and to identify any problems which could have arisen in its completion and subsequent analysis of the results. After the pilot, amendments were made to the wording of some questions. The questionnaires were then distributed to all the 26 banks in the banking sector.76 The initial draft of the questionnaire contained questions that were designed to capture information from the banks in operation in Ghana. During the pilot testing phase, it was discovered that in fact different banks may be needed for the various aspects of the questionnaire.

First, some measures were noted not relate to corporate governance and or not applicable to most newly established banks ( in initial version ) were made to answer aspect of the reforms that affected them, as it became evident that they did not experience privatisation and or sector restructuring under the FINSAP II. Second, Questions that asked respondents to tick were supplemented by additional space for respondents to give additional corporate governance issues or reform measures where applicable, as the list provided may not be exhaustive. It was observed also that banks not in existence prior to the reforms may not tick a given reform measures directly, but indicate situations or factors that represent or could be ascertained the listed ones.

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76 The Pilot Survey was completed by Executive Directors in three of the privatised banks. The respondent was kind enough to provide feedback on the structure of the questions, the amount of time it took him to complete his responses and to advise on any questions which required rewording because they were ambiguous.
It also became apparent during the pilot studies that, banks that were established after the FINSAP II were not able to directly indicate a change in all the various corporate governance issues between 1995 and 2000. For instance, for a change questions to be answered properly, banks established before privatisation policies are the only firms experienced the change. However, the prevailing regulatory framework and deregulation has had impact on all banks. Consequently, questions were tailored to capture the changes that were relevant to the banks concerned.

5.2.3 Administration of the Survey

The questionnaire survey was conducted in Accra, where all the commercial Banks have their head offices. Prior to the distribution of the questionnaires, the principal researcher and the field assistant went to see each Managing Director or his/her representative to explain the process and ask permission for the survey. Many managers expressed their interest and cooperation with researcher. Prior consultation and explanation of the study with the potential target directors were done to explain in details the issues the research was meant to achieve. The questionnaires were hand-delivered to corporate secretaries or executive directors and the responses were received largely by hand (see appendix A for the survey questions). The researcher was given a date between one week to one months to collect the completed forms. In these meetings, the researcher explained in details problems with terms or jargons and necessary changes were made for ease of completing of the questionnaire. This is to ensure that the data obtained is consistent with the research question.

The response, therefore, represent the views of top management; although it is possible that completion of the questionnaire was delegated to subordinates. Different types of bank ownership (State, Foreign and Private) are believed to have differing effects on corporate governance of a company based on empirical studies discussed in chapter two already. Among these banks were foreign owned banks (FOBs), state owned banks (SOBs) and private indigenous banks (PIBs). Although the focus of this research is on SOBs and FOBs, a survey of the entire commercial banking sector was conducted to allow for a comparison of the ownership structure and corporate governance practices across different banking types.

77In privatisation literature reviewed in section 2.7, several basic ownership types that may occur after privatisation. These include; (1) government or state institutions (2) foreign investors (3) local institutional investors (4) local individual investors
5.3 Analysis of Survey Responses

This section presents the results from the survey. Firstly, the general information about the banks is presented. This is followed by an analysis of the responses regarding ownership structure, board features and opinion based responses on the effect of the 2004 regulatory changes on corporate governance. Table 5.1 presents some background information on the respondent banks. The table shows that the respondents were across the three different ownership types, namely, state, private indigenous and foreign owned banks. Responses were received from all the twenty-six fully licensed banks in operation in Ghana. Caution should be taken when analysing the results of this survey. There is a potential bias that banks with better corporate governance are more likely to respond to the survey than those with poor corporate governance. As a result, the results from the survey may present a brighter picture of corporate governance and related practices.

5.3.1 Banking sector evolution and privatisation

Prior to government divestment of its interest in banks, the ownership of banks was dominated by the Government with only two banks having foreign equity involvements. Under FINSAP II, restrictions were relaxed to allow for private ownership up to 100% subject to Bank of Ghana approval (Bank of Ghana)\textsuperscript{78}. The mode or process of privatisation could determine the ownership concentration and forms of firms. For example, Megginson et al. (2002) and Bortolotti et al. (2000) show that the method or process of privatization (i.e., public share issues versus private asset sales) determines the ownership concentration in the resultant ownership structure.

To ascertain the evolution of the banking sector, all the 26 respondents were asked to indicate the year of the establishment of the bank. They were also asked if they had undertaken privatisation measures as part of the FINSAP III and 1995 and 2000. A follow up questions to respondents to state the privatisation methods adopted and the extent of state banks’ divestment. The results on this are presented in Tables 5-1, 5-2 and 5-3 were supplemented by data from the banks’ Annual Reports and registration documents lodged with the Bank of Ghana (BoG).

Table 5-1 gives an idea of the evolution of commercial banks in Ghana. Until 1995 when the sector was privatised, there were five SOBs and two traditional FOBs. The rest of the banks are either in complete government control or private control. Seven of the respondents were established before

\textsuperscript{78} Prior to the reform measures, the ownership of commercial banks were tightly restricted and limited to government. Though, the law does not limit the ownership, BoG, will have to approve ownership above 10%.
1995, eleven private were established during FINSAP II & III (between 1991 and 2000), and eight were established after 2000.

Table 5-1: Bank evolution and divestment

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<tbody>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>PDS</td>
<td>IPO</td>
</tr>
<tr>
<td>SOBs</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>FOBs</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>PIBs</td>
<td>0</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>11</td>
<td>8</td>
<td>3</td>
<td>2</td>
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</table>

Source: Survey data. * The three liquidated banks are excluded from the data SOBs - State owned banks; FOBs – Foreign owned banks; and PIBs – Private indigenous banks.

The drastic increase in private sector banks (FOBs and PIBs), might have been due to the divestment of state shares and deregulation of bank ownership that allowed private individual and institutions to own up to 100 per cent of shares in banks. For example, out of the seven before 1995, two of the divested banks were listed on the GSE as part of the privatisation process. It shows that, the government divested its shares completely in three banks, but partially holds unto its interest in two others. Three banks remained completely in the hands of the government and its agencies. It is also noted that, the government used direct private sales (strategic) (three banks) and IPO on the Ghana stock exchange in its quest to divest its interest in these banks (Table 5-1). It also shows that only three of the banks had undergone complete state to private change of ownership, and the two others were in state-private partnership through partial privatisation.

5.3.2 Change in Ownership Concentration of Banks

Unlike minority shareholders, controlling shareholders have a strong incentive to monitor the managers (in case they do not perform the managerial function by themselves). Section 2.7.1 shows that privatization can lead to ownership concentration in various ownership forms, depending on the amounts of shares that changed hands among the state and the new owners.

To determine the ownership concentration and forms, a question required the banks to indicate the major shareholder(s) in 1995 and 2000 and amount of share(s) involved. The author used
registration document of all the banks lodged with the central bank to verify the information given. The shareholding structure was useful in establishing concentration by block holders such as state, foreign investors and the local indigenes.

Table 5-2 presents the ownership structure across banking types considered for this research between December 1995 and December 2000. The table also shows that, five banks (shown by asterisk) experienced privatisation between 1995 and 2000. This is explained by the reduction in state shares in these banks within the period under review.

Table 5-2 Change in ownership structure of banks between 1995 and 2000

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<tbody>
<tr>
<td></td>
<td></td>
<td>Name</td>
<td>type</td>
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<tr>
<td>SOBs</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>NIB</td>
<td>NP</td>
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<td></td>
<td></td>
<td>ADB</td>
<td>NP</td>
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<td></td>
<td></td>
<td>MBG</td>
<td>NP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>GCB*</td>
<td>PP</td>
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<tr>
<td></td>
<td></td>
<td>TTB*</td>
<td>PP</td>
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<tr>
<td></td>
<td></td>
<td>Avg</td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>FOBs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>SCB*</td>
<td>FP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>BBGL*</td>
<td>FP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SG-SSB*</td>
<td>FP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EBG</td>
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<td></td>
<td></td>
<td>ICB</td>
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</table>
Table 5-2 also shows ownership structure patterns across ownership types highlighting the level of ownership concentration irrespective of the banking form concerned. For example, the sector average concentration percentage reduced slightly from 66.5 to 62.9 in 1995 and 2000 respectively. The only distinction noted was in the identity of the shareholders with concentrated ownership. In state and foreign owned banks, the majority shareholder was the government or the parent foreign company whilst the largest shareholders in indigenous banks were institutional.
When the three subgroups were compared, high concentration of shareholding was prevalent in both periods across all ownership types. It highlights that when taken as averages; FOBs had the highest concentration of shares of major shareholders constituting an average of 92.9 compared to PIBs and SOBs that had 79.6 and 59.3 % respectively for the two periods. Closely related to this is a change in concentration within each ownership form between the periods. While, SOBs reduced from 88.4 to 59.3, FOBs increased from 79.6 in 1995 to 92.9 in 2000. The change in the major shareholding in SOBs and FOBs might have been partially been due to the privatisation or divestment of state shares which were predominantly acquired or purchased by foreign investors. Private indigenous banks have an average of 43.4 per cent and 40.5 per cent shareholding by the major owner indicating no significant change. PIBs were largely established under FINSAP III and no significant ownership change took place within the short time of their establishment. The PIBs were therefore less concentrated in the hands of largest shareholder or much more widely-held. The high concentration of shareholding in SOBs and FOBs may be largely the results of the privatization method and deregulation that allows share ownership up to 100%. The method of privatisation was found to have ownership forms and concentration implication for privatised firms (Dyck, 2001; Claessens and Djankov, 1997).

5.3.3 Government Residual ownership versus Private ownership forms

Unless the state have the courage to run the banks (partially and or non-privatised) as economic entities, the minority shareholders and or the tax payer stand to be expropriated in most of these banks. Concentrated domestic private or foreign ownership is more likely to ensure the success after privatization, as large or institutional investors exert a close monitoring of management activities that ensures superior returns in privatised firms.

The remarkable development shown in the Table 5-2 is the decline of the number of SOBs and a significant increase in FOBs and PIBs since the government divestment drive in 1995. For example, in the SOBs, 20% of the shares were now owned by indigenous individuals. FOBs were controlled predominantly by the foreign financial institutions up to 100% share ownership at the end of 2000. Within the SOBs, the government and its agencies as the main sponsor controlled more than 50% shares in all the SOBs.

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79 However, among PIBs, the results also indicate high concentration of shares within the top 5 shareholders ranging from 73 per cent to 99.7 in the hands few local institutions and the pension fund of Ghana (SSNIT).
However, government retained substantial interest in banks between 1995 and 2000. Apart from TTB which had about 39% private ownership (including 23.6 per cent foreign institutional ownership)\(^{80}\), majority of the government’s shares are owned through public institutions (mostly SSNIT and BoG). The most important governance issue in these SOBs has to do with the tendency for the state and or controlling agents to expropriate by virtue of its larger shareholdings in the partially privatised banks (GCB) and other state-private partnership types (TTB and MBG). Similarly, the fully privatised banks and or where the state divested its interest completely were found to be controlled by foreign investors (SCB, BBG and SG-SSB). Other banks remained in government control with no private investor involvement (NIB and ADB) in both periods. In partially owned SOBs, the insider shareholding (stake of government) was high (Table 5-2). For example, the government listed 49% on the GSE exchange for private participation, whilst others (MBG and TBL), small shares were sold to specific targeted institutions and individuals.

The results also indicate significant increased private institutional participation (local and foreign) across bank forms. The Table 5-2 shows that the state banks have the lowest non-public institutional investors, with only TTB having foreign institutional investment of about 25% (Dutch Development Fund). The Social Security and National Insurance Trust (which is the state Pension Fund) was the largest shareholder in SOBs and PIBs alongside other local institutional investors. From the survey, institutional shareholders own 81% of the shares of banks, suggesting that they would have greater incentive to monitor effectively. Foreign investor involvement in privatisation can positively impact on corporate governance due to their experience, reputational and resources available to them, but, local institutional owners may lack the expertise and resources to monitor (Klock et al, 2005).

The questionnaire also asked about the percentage of shares owned by the bank’s executive directors (including the MDs) to establish the level of executive ownership which is also important in determining the level of inside ownership\(^ {81}\). There was absence of executive shareholding in most of the banks surveyed. The reduced executive interest in banks may have been due to the central bank’s demand for high capital outlay. The lack of executive ownership in the privatised banks indicates a separation between ownership and control and may lead to increased management efficiency, reduce related party transactions which precipitated pre-reform bank collapses. Though

\(^80\) France based COFIPA (10%) and Netherland Development Finance Company (FMO) (13.6%)

\(^81\) Executive Ownership is measured as a proportion of shares sold to executive directors as part of the privatisation measure. This is because share ownership of employees in privatised firm is believed to have an impact on the corporate governance of firms (Khanna and Palepu, 1999).
managerial ownership is more likely to lead to enhanced monitoring of privatised firm (Li, 1998), firms with majority managerial ownership the probability of a hostile takeover equals zero (Shultz, 1988). Increase the effectiveness, monitoring function of the board and increase protection of depositors is expected.

In summary, more banks were established after 1995, when the banking sector was deregulated and privatised. The banks remained concentrated in the various forms between 1995 and 2000 under review. The continuous state ownership even in minority shares of privatized banks was found to have negative effects on management performance. Selling only a small stake increases the likelihood of continuing government interference and delay restructuring of personnel and poorly performing banks (Xu and Wang, 1997; Gropp et al. 2010). The high presence of foreign institutions could be recipe for quality corporate governance; given their financial resources, reputation, experience managerial know-how advantages they have over other forms of owners (Dyck, 2001), and could be recipe for quality corporate governance, given their financial resources, reputational concerns, managerial know-how advantages they have over other types of owners (Leuz and Warnock, 2009).

The findings are consistent with other studies that suggest that, private ownership tends to concentrate over time following privatization and or deregulation (Clarke et al. 2003). Thus a decrease in the government’s ownership is mostly absorbed by local institutions and foreign financial institutions (Clarke et al. 2005). The observed ownership concentration might significantly and positively result in increased shareholder monitoring of banks and subsequently impact on corporate governance issues. The level of ownership concentration is said to be influenced by industry level factors such as the regulation of a particular industry (Demsetz and Lehn, 1985). And the deregulation of the sector by allowing up to 100% of shareholding by any individuals and institutions may have contributed significantly to the concentration across ownership types.

5.4 Change in the Board of Directors and top management

Apart from the ownership changes, the other internal mechanisms are the board of Director (BOD) and management changes. In privatisation literature the low qualification of government-appointed board members and managers are considered as the cause of poor performance of the SOEs (Lopez-de-Silas, 1977). Besides, incentives to monitor managerial behaviour are poor, leaving managers

82 From the survey, institutional shareholders own 81% of the shares of banks, suggesting that they would have greater incentive to monitor much more effectively.
considerable discretion to pursue their personal agendas (see section 2.7 above). Changes in the
constitution of the BOD as well as changes in managing director (MD)/executive can be put in place
to ascertain effective monitoring and management respectively (Barberis et al, 1996 and Boubakri et
al, 2001). The under-qualified managers could be replaced by others whose objectives are more
aligned with profit maximisation, and new monitoring mechanisms could be put in place by the new
owners (Xu, 2012). In the wake of the Ghanaian financial crisis in the early 1990s, BODs of SOBs did
not function according to existing relevant laws and the spirit behind those laws (Mensah, 2002;
Zorklui, 2001). It is expected that the reduced government involvement in day-to-day bank business
would make BODs more responsible and more effective.

Restructuring of the BODs and changing the MD and top management can impact positively on
corporate governance of the affected organisation. 18 banks operating between 1995 and 2000
were asked if there was any form of changes to the board and top management between 1995 and
2000. In total, 9 banks indicated a change between the periods. They are identified by asterix in
Table 5-3 below. While, the SOBs and one FOB (SG-SSB) think it was due to new owners or
privatisation; all the other private sector banks ascribed the changes to their normal corporate
practice.

To find how the composition and independence of the board changed, questions were asked on
board and management features between 1995 and 2000. The survey asked questions regarding
BOD composition, independence and the functions of the board. Other questions asked the
respondents to list the board members and indicating their qualifications and whether they are
executive or non-executive for 1995 and 2000 respectively.

5.4.1 Composition and Independence

In a free market economy, incentive to monitor management is thought to lie in the desire of
outside directors to develop reputation in decision control (Herman, 1981). By appointing the board of directors, new shareholders may have an instrument to control managers and ensure that the firm is run in their interest. New structures may allow for more efficient monitoring of managerial discretionary behaviours and can substitute for weak corporate control mechanisms (Tosi et al., 1997; Shan and Xu, 2012), by appointing the board of directors, new shareholders may have an instrument to control managers and ensure the bank is run in their interest. By depoliticizing the firm, privatization separates politics, state management, and economic activities, thereby keeping the state out of day-to-day business of privatized firms (Hellman and Kaufmann, 2003). This in turn helps limit the extent of interference of the government. Effective separation between decision management and decision control calls for outside directors to carry out their tasks properly and not collude with managers to harm the interests of the residual claimants.

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83 By appointing the board of directors, new shareholders may have an instrument to control managers and ensure that the firm is run in their interest.
84 New structures may allow for more efficient monitoring of managerial discretionary behaviours and can substitute for weak corporate control mechanisms (Tosi et al., 1997; Shan and Xu, 2012), by appointing the board of directors, new shareholders may have an instrument to control managers and ensure the bank is run in their interest.
85 By depoliticizing the firm, privatization separates politics, state management, and economic activities, thereby keeping the state out of day-to-day business of privatized firms (Hellman and Kaufmann, 2003). This in turn helps limit the extent of interference of the government.
86 Effective separation between decision management and decision control calls for outside directors to carry out their tasks properly and not collude with managers to harm the interests of the residual claimants.
asked about the number of external directors when the respondent in 1995 and 2000 respectively, to assess whether there was a change over time. Since outside directors are regarded as more independent than inside directors, it is argued that they can monitor managerial performance more effectively (Fama, 1980). Effective boards should therefore have high proportion of outside directors. The results on this are presented in Table 5.3 and Table 5-4 are supplemented by banks’ Annual Reports.

Table 5-3 shows increased number of non-executive directors had been engaged within the period (i.e. from 53.8% in 1995 to 65.3% in 2000). Change in the outside director composition of the board had been more significant in SOBs. The composition of the outside directors increased from the average of 44.5 per cent in 1995 to 69 per cent in 2000. PIBs recoded some changes but, FOBs posted no significant change over the period (except SG-SSB).

### Table 5-3: Change in Composition of Boards of Directors within Banks

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Executives</th>
<th>Outside</th>
<th>Outside executives (%)</th>
<th>Foreign director</th>
<th>State officials /Cadres</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SOBs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NIB</td>
<td>5</td>
<td>4</td>
<td>44.4</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>ADB</td>
<td>5</td>
<td>3</td>
<td>37.5</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>MBG*</td>
<td>4</td>
<td>3</td>
<td>42.9</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>GCB*</td>
<td>6</td>
<td>4</td>
<td>40.0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>TTB*</td>
<td>3</td>
<td>4</td>
<td>57.1</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Average</td>
<td>4.6</td>
<td>3.6</td>
<td>6.8</td>
<td>0.4</td>
<td>8</td>
</tr>
<tr>
<td><strong>FOBs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SCB*</td>
<td>4</td>
<td>8</td>
<td>66.7</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>BBGL*</td>
<td>5</td>
<td>8</td>
<td>61.5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>SG-SSB*</td>
<td>3</td>
<td>5</td>
<td>62.5</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>EBG*</td>
<td>3</td>
<td>6</td>
<td>66.7</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

87 The effects of outside directors on strategic decisions and firm performance have been studied by a number of researchers. Strategic decisions include greenmail payments (Kosnik, 1987), golden parachute contract (Singh and Harianto, 1989), and dividend payment (Schellenger et al, 1989).
The increase in outside director maybe a good thing, but the commitment of SOBs to engage professional managers is the issue addressed in column seven of table 5-3. The increase in outside board members may play an important independent role in protecting shareholders’ interest by crafting the structure of executive compensation, preventing the misuse of corporate resources, and encouraging the reallocation of the free cash flow back to the shareholders (Roe, 2008). It appears the commitment of the government of Ghana to allow professional to manage affairs of the bank (as per restructuring), appear to give mixed result. For example, non-privatised SOBs continue to have very large government officials on the board and senior management positions, both in 1995 and 2000. The, FOBs and PIBs as expected had minimum political agents than SOBs. Between 1995 and 2000, the membership of the party or Revolutionary Cadres seemed very important in non-divested SOBs. For example in ADB and NIB, there were no marked changes in the government officials and or party cadres on the board. It appears the board restructuring between 1991 and 1994 had not
significantly changed regarding the presence of government agents on the boards of SOBs. The continuous presence of politicians on boards of SOBs made them more likely to be exposed to government pressure through the directors. The presence of government appointees on the BOD of the SOBs may aid the ‘distributional cartels’ referred in the theoretical section (see Sections 2.6 and 2.7.1).

The situation had changed drastically in most partially privatised or SOBs with private involvement. For example in GCB, a bank under state-private partnership, registered less than 30% political representation, with significant number of professional not affiliated to government/party appointed to the board. The SOBs with substantial or complete state ownership, the difference is minimal, as most of the appointees are either politicians or bureaucrats from the sector ministries. It presupposes that non-privatised FOBs appear to have had more stable directors than the other ownership forms. Unlike non-divested SOBs, there were more personnel changes in banks that divested partly (state control) or fully private owned (mostly in foreign control). Overall, it appears that top managers were hanging to their jobs despite board restructuring aimed at giving operational control to the board in most SOBs.

Increased foreign expertise is observed during the period under study. An increased presence of foreign experts can put pressure on the firm’s board to focus on shareholders’ interests, since they are not constrained by the cultural and traditional business practices of domestic shareholders to consider stakeholder claims to the residual. Apart from SCB, all the foreign banks indicate the presence at least one foreign director on the board of directors. One local indigenous bank (UTI) has one foreign director on the board of directors. In mixed banks, at least one foreigner served on the board, possibly representing foreign investor at the end of 2000. Foreign investors will always invest when they are sure their interest will be well served (Clarke et al, 2003). Increased foreign directors on allowed the affected banks to potentially and or practically benefit from knowledgeable and experienced directors from the parent groups all over the world. New owners may by this be more at home with the foreign directors who they believe could serve their interest.

When the respondents were asked to state the reasons for the change at the board level if any, most of the FOBs and PIBs indicate the changes were due to the normal corporate strategy and corporate bylaws. Three of the SOBs think the international best practice promoted by Bank of Ghana (BoG) underpinned the various boards of director changes. SG-SSB (FOB) confirmed that privatisation informed their current board structure, as they now conform to the parent group’s way of doing

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88 See Yoshikawa and Phan (2001)
business. Partially privatised or mixed bank firms follow similar trend as they relate their change to involvement on professional on the board.

5.4.2 Board Qualification, Knowledge and expertise

Pre-privatisation performance of SOBs was partially attributed to the low qualification of government-appointed BOD and managers (Nam, 2004). Although educational level does not necessarily equate with high management ability, managers were asked about their educational qualifications. Respondents were asked to indicate educational and professional attainments of the members serving on the board at the two periods. The survey data of 2000 shows most of the board members are now qualified professionals with diverse backgrounds. Though private banks generally reported higher educational attainment amongst upper management than the SOBs in 1995, all bank types have qualified directors in most crucial subject areas at the end of 2000 (Table 5-4).

Table 5-4: Change in Knowledge and Expertise in Board and top Management

<table>
<thead>
<tr>
<th>Changes in Academic and Professional Qualification of Directors and Top managers</th>
<th>School certificate</th>
<th>Technical/vocational</th>
<th>University/professional</th>
<th>Law</th>
<th>Accounting</th>
<th>Banking/finance</th>
<th>Mgt/Economics</th>
<th>others</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>‘95</td>
<td>‘20</td>
<td>‘95</td>
<td>‘20</td>
<td>‘95</td>
<td>‘20</td>
<td>‘95</td>
<td>‘20</td>
</tr>
<tr>
<td>NP</td>
<td>2.7</td>
<td>2.0</td>
<td>2.0</td>
<td>1.3</td>
<td>3.3</td>
<td>6.3</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>PP</td>
<td>1.5</td>
<td>0.5</td>
<td>1.5</td>
<td>0.0</td>
<td>5.5</td>
<td>9.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Average</td>
<td>2.2</td>
<td>1.4</td>
<td>1.8</td>
<td>1.0</td>
<td>4.2</td>
<td>7.4</td>
<td>1.0</td>
<td>1.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FOBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP</td>
</tr>
<tr>
<td>NSE</td>
</tr>
<tr>
<td>Average</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PIBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSE</td>
</tr>
</tbody>
</table>

Source: Author’s own compilation from Questionnaire Survey data and Bank of Ghana sources. Key: PP (partially privatised), FP (fully privatised), NP (not privatised), and NSE (No state equity involvement).

89 A board that displays a wide diversity of board background in a bank may be more likely to improve their monitoring capabilities (Nam and Nam, 2004)
The 1995 data indicate the presence of directors with secondary education and or vocational qualifications in all SOBs. However, all SOBs reported a dramatic change over the two periods, since low level qualification reduced drastically in 2000. Apart from one fully privatised SOB (SG-SSB) that indicates no unqualified individuals in 2000, all the other SOBs residual state ownership indicate average reduction of non-graduates from 4.0 to 2.4 in 1995 and 2000 respectively. This might have been due to the involvement of new private owners that employed and or train directors to the level required running the banks more efficiently. Generally, most of the other banks (FOBs and PIBs) say they had no directors with qualifications lower than university degree (s) in the two periods. Whilst the FOBs and PIBs banks failed to register changes in the University and professional qualifications, it had increased significantly in all the SOBs between 1995 and 2000. It was not unexpected, since the private sector was noted to have engaged qualified staff prior to the sector privatisation.

Consistent with the improved director qualifications over the period under study, table 5-4 also shows changes in career area relevant for the banking industry over the periods in most banks. SOBs were the most affected as they appeared to have registered the highest changes in expertise diversity in the important disciplines over the two periods. For example, the changes in occupations of the directors included Lawyers (1.0 to 1.6), Qualified Accountants (1.4 to 1.6) financial and banking experts (0.8 to 1.8), and Management/Economists specialists (2.8 to 3.8) in 1995 and 2000 respectively. The SOBs conspicuously registered drastic reduction in other non-essential disciplines from 2.8 in 1995 to 1.0 in 2000. This group included politicians, university professors, chiefs and other practitioners that were related to the government. Thus the proportion of non-banking related expertise in the public banks reduced, giving way to more qualified professionals by the years 2000. This change could have been due to the reduction in appointment of bureaucrats and individuals based on political affiliation only. On the whole, the education level of SOB top managers improves in privatised banks and private indigenous banks. This may be due to the appointment of managers by the government which was based mostly on the political factors rather than management ability required for the job over the study period.

The increased board qualification across banking forms is more likely a result of privatisation or private involvement in ownership under FINSAP III. The wide diversity of board background displayed is more likely to improve their monitoring capabilities. The educational qualifications and experience of the board are important in deepening perceptions of board members on issues such as risk and monitoring and also reduces board complacency (Nam, 2004). Firm specific knowledge
cannot be underestimated as it is especially crucial with regards to resource distribution, hereunder in the understanding of proposed projects (e.g. loans and investments) (Brownbridge and Gockels, 1996). The general increase in qualification confirms that, when enterprises move into a new competitive environment changes in directors and top management are effected to introduce new blood more able to manage in the face of the associated commercial pressures (Parker, 1995).  

5.4.3 Board Objective and Functions

The problem of the Ghanaian SOBs was that, almost all the key ‘multi-tasking’ functions of the board were performed or at least heavily influenced” by the government or ministry of finance and economic planning (MOFEP) prior to the FINSAP (Zorklui, 2001).91The need to have a profit oriented board and top management free of political or unprofessional interventions was an urgent call, should the bank be run as a viable commercial unit (FINSAP II). Independent professional managers may have to make decisions, guided perhaps by general rules, so that responsibility for bad outcomes is unambiguous.92

It is expected that, divestment in ownership and control should produce profit oriented professionals that are responsible for important business and operational decisions. One cannot expect bankers who are not allowed to decide whom to appoint, and how much to pay to motivate and retain good staff, to take responsibility for the outcome of their operations (Ameza, 2005).

5.4.3.1 Board objectives

Under the privatisation drive implemented, it is expected that banks would transform completely from traditional multi-purpose SOBs to business units operating according to market dictates.93 In order to examine the extent of change in SOBs, respondents were asked to tick what were their most important (by rating) objectives of their banks for the two periods.94

90Directors with diverse backgrounds may be more creative, take higher quality decisions and thus minimises monitoring costs (Raheja 2005).
91SOE executives always claim that the reason they are losing money is not that they are inefficient or incompetent, but that they have been pursuing other (social, job creation or development) goals (Stiglitz, 1989). And it is virtually impossible for an outsider to judge the validity of those claims.
92Privateization per se may not change incentives, although it offers an opportunity to change the corporate governance of the company.
94They are ranked according to scale of importance of between 1 to 3 (0=1; Y=2 and Y+=3), with the highest was assigned 3 points. The other two were important and somewhat important respectively, with two and one points assigned to them respectively. Those that were not cited as the most important objective and at the same time had an aggregate score of less than three were excluded.
The result shows that the board and top management places more emphasis on business or profitability decision rather than political/social goals in 2000. Total scores were then worked out for each of the ownership types, and the three highest scored objectives (Table 5-5). All the banks surveyed put profit making first place; although the extent of market orientation still varies across ownership forms.

Table 5-5 Change in Corporate objectives and priorities

<table>
<thead>
<tr>
<th>Bank forms</th>
<th>Ranks</th>
<th>Profitability</th>
<th>Regulatory requirements</th>
<th>Technology / Innovation</th>
<th>State/social needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>Y+</td>
<td>0.0(0.0)</td>
<td>1.0(2.0)</td>
<td>0.0(0.0)</td>
<td>2.0(2.0)</td>
</tr>
<tr>
<td></td>
<td>y</td>
<td>1.0(1.0)</td>
<td>2.0(0.0)</td>
<td>0.0(1.0)</td>
<td>1.0(0.0)</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>2.0(1.0)</td>
<td>0.0(0.0)</td>
<td>3.0(1.0)</td>
<td>0.0(0.0)</td>
</tr>
<tr>
<td>Total</td>
<td>Agg</td>
<td>3.0(3.0)</td>
<td>5.0(6)</td>
<td>3.0(3.0)</td>
<td>6.0(6.0)</td>
</tr>
<tr>
<td></td>
<td>Avg</td>
<td>1.0(1.5)</td>
<td>1.7(3.0)</td>
<td>1.0(1.5)</td>
<td>2.0(3.0)</td>
</tr>
<tr>
<td>FOBs</td>
<td>Y+</td>
<td>4.0(2.0)</td>
<td>4.0(3.0)</td>
<td>1.0(1.0)</td>
<td>1.0(2.0)</td>
</tr>
<tr>
<td></td>
<td>y</td>
<td>0.0(1.0)</td>
<td>0.0(0.0)</td>
<td>1.0(1.0)</td>
<td>2.0(1.0)</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0.0(0.0)</td>
<td>0.0(0.0)</td>
<td>2.0(1.0)</td>
<td>1.0(0.0)</td>
</tr>
<tr>
<td>Total</td>
<td>Agg</td>
<td>12.0(8.0)</td>
<td>12.0(9.0)</td>
<td>7.0(6.0)</td>
<td>8.0(5.0)</td>
</tr>
<tr>
<td></td>
<td>Avg</td>
<td>3.0(3.7)</td>
<td>3.0(3.0)</td>
<td>1.8(2.0)</td>
<td>2.0(1.7)</td>
</tr>
<tr>
<td>PIBs</td>
<td>Y+</td>
<td>5.0</td>
<td>6.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>y</td>
<td>1.0</td>
<td>0.0</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>Agg</td>
<td>17.0</td>
<td>18.0</td>
<td>15.0</td>
<td>16.0</td>
</tr>
<tr>
<td></td>
<td>Avg</td>
<td>2.8</td>
<td>3.0</td>
<td>2.5</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Author’s own compilation from Questionnaire Survey data. For the SOBs and FOBs, the privatised banks have their values in the parenthesis.

The data shows that the SOBs registered a much more steep change in their corporate objectives, followed by the private indigenous banks (PIBs), with the foreign owned banks showing minimal change over the period under study. For the state banks, the, most important objectives was increasing outputs, and fulfilling the tasks set by the government/ministry. However, technical innovation, increasing profit or shareholder value were the most important objectives for SOBs and
FOBs. This suggests that between 1995 and 2000, the non-privatised SOBs paid more attention to the plans of the government than profit earned. By 2000, there had been a distinct change. Profit and employee incomes, achieving regulator objectives were ranked the most important objectives, irrespective of the ownership types. Within the state owned banks put profit making in the first place; although the extent of market orientation still varied between them. For example, for the SOBs fulfilling tasks from government authority had a rather high score, close to that of the objective of increasing social needs, suggesting that the state agents still remained influential in determining objectives.

If the traditional SOBs and mixed ones were examined, their objectives were the same as those of the SOBs in 1995. This is perhaps not too surprising because the privatised and or mixed banks were traditional SOBs in 1995. By 2000, these banks appear to have objectives more like the private banks. More attention was given to profit earning by the newly acquired or partially acquired banks. The percentage of this subgroup that cited profits as their primary objectives increased from drastically from 7.0 to 13.0 aggregate points. This suggests privatisation of SOBs had an impact on management objectives, as the government intended. The transformed SOBs seem to have geared their goals to market competition at a greater pace than the non-transformed ones. The traditional SOBs, which continued to operate under the old management system, appear to have made less adjustment towards the emerging market economy. SOBs pursue objectives that frequently conflict with profit-maximization, the level of ownership retained by the state should affect the newly-privatized firm’s efficiency (Bortolotti et al, 1997). Managers may also undertake restructuring in anticipation of privatization if the government commitment is credible (Pohl et al, 1997).

The lack of change of objectives in private banks (including FOBs) might have been due to the fact that FOBs had been profit oriented long before FINSAP. The most important objective that was mentioned by all FOBs was the need to meet parent group requirement in all aspect of corporate governance dimensions. For example, the quality of board, compensation/evaluation, and general corporate culture are geared towards meeting foreign investor specifications. SG-SSB, a former SOB in 1995, changed drastically, possibly in line with the new parent group objectives and goals. No foreign investor will commit resources to any business that is perceived as not well managed or riddled with old bureaucratic principles and objectives (Faccio and Stolin, 2006).

The result suggests that in 1995 the SOBs paid little attention to the plans of government than to profit earned. By 2000, there had been a distinct change. Profit objective was ranked in 2000 as the
most important goal irrespective of company ownership type. All the banks surveyed put profit making first place; although the extent of market orientation still varies across ownership forms. For example, the SOEs fulfilling tasks from government had rather high score, close to that of the objectives of social goals, suggesting government still remained influential than in the case of other sub-groups.

5.4.3.2 Board Functions and Roles

Prior to 1995, government of Ghana in many instances runs SOBs directly through the influence of its board nominees and directives given to the MOFEP (Mensah, 2002). This put the bank boards in “untenable positions, torn between their duty of loyalty to the SOB and the need to act on behalf of the state”. With the increased banking sector privatisation, the challenge is whether board role and functions has become more insulated from political pressure.

To address this issue, managers were asked about the decision making processes in the bank (for example, appointment of directors and senior managers or executives, business decisions and other roles played by the board and top management) their educational attainment, their relationship to the ruling government and personnel changes over the study period.

i. Appointment Decision Making

If the board is to fulfil its profit oriented functions properly, they will need minimum external interference from third party. With the orientation of ownership objectives, it is expected that there will be a restructuring of business decision making.

The decision making role of the SOBs increased over the study period. Table 5-6 summarises the proportion of top managers appointed by the government in 1995 and 2000. Between 1995 and 2000, it seems that partially privatised banks had more autonomy than the fully owned state banks over appointment and business decision making. None of the SOBs could appoint their top managers without the involvement of government authorities and only one had their appointment done

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95 Although pre-privatisation restructuring may give public banks some autonomy in the appointment of managers at middle level, business decision making are influenced by government agencies (Arun and Turner, 2002).

96 “An independent board should be autonomous enough to carry out its responsibilities as mandated by the banking laws without undue interference”. 
externally. By 2000 there had been an increase in bank autonomy in all the ownership types. In all the partially privatised banks and or private banks no top managers were appointed by government; while only two of SOEs had broken free of the influence of government. The data show that privatisation seem to factor in explaining autonomy. Both complete autonomy and high influence from government were found in both partially and non-privatised banks in 2000.

### Table 5-6 Changes in Board and top management appointments and business Decisions making

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>Appointment</td>
<td>0.0(0.0)</td>
<td>0.0(0.0)</td>
<td>3.0(2.0)</td>
<td>3.0(0.0)</td>
<td>0.0(0.0)</td>
<td>0.0(0.0)</td>
</tr>
<tr>
<td></td>
<td>Loans/Investments</td>
<td>0.0(1.0)</td>
<td>0.0(2.0)</td>
<td>2.0(1.0)</td>
<td>2.0(0.0)</td>
<td>1.0(0.0)</td>
<td>1.0(0.0)</td>
</tr>
<tr>
<td></td>
<td>Business Strategy</td>
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<td>3.0(2.0)</td>
<td>1.0(1.0)</td>
<td>0.0(0.0)</td>
<td>0.0(0.0)</td>
<td>1.0(2.0)</td>
</tr>
<tr>
<td>Avg.</td>
<td></td>
<td>0.0(1.0)</td>
<td>3.0(4.0)</td>
<td>6.0(4.0)</td>
<td>5.0(0.0)</td>
<td>1.0(0.0)</td>
<td>2.0(2.0)</td>
</tr>
<tr>
<td>FOBs</td>
<td>Appointment</td>
<td>4.0(2.0)</td>
<td>4.0(3.0)</td>
<td>0.0(1.0)</td>
<td>0.0(0.0)</td>
<td>0.0(0.0)</td>
<td>0.0(0.0)</td>
</tr>
<tr>
<td></td>
<td>Loans/Investments</td>
<td>4.0(2.0)</td>
<td>4.0(3.0)</td>
<td>0.0(0.0)</td>
<td>0.0(0.0)</td>
<td>0.0(1.0)</td>
<td>0.0(0.0)</td>
</tr>
<tr>
<td></td>
<td>Business Strategy</td>
<td>4.0(2.0)</td>
<td>4.0(3.0)</td>
<td>0.0(0.0)</td>
<td>0.0(0.0)</td>
<td>0.0(1.0)</td>
<td>0.0(0.0)</td>
</tr>
<tr>
<td>Avg.</td>
<td></td>
<td>3.0(2.0)</td>
<td>3.0(3.0)</td>
<td>0.0(0.3)</td>
<td>0.0(0.0)</td>
<td>0.0(0.7)</td>
<td>0.0(0.0)</td>
</tr>
<tr>
<td>PIBs</td>
<td>Appointment</td>
<td>3.0</td>
<td>4.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td></td>
<td>Loans/Investments</td>
<td>4.0</td>
<td>4.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>Business Strategy</td>
<td>4.0</td>
<td>5.0</td>
<td>1.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Avg.</td>
<td></td>
<td>1.8</td>
<td>1.5</td>
<td>0.3</td>
<td>0.2</td>
<td>0.5</td>
<td>0.3</td>
</tr>
</tbody>
</table>

*Source: Author’s own compilation from Questionnaire Survey data. *The data for privatised SOBs and FOBs in parenthesis.

### ii. Business Strategy and Loans Decisions

Bureaucrats are by nature risk averse, and will therefore undertake less risk than is optimal from the taxpayers’ point of view. In order to partially mitigate such opportunism, bureaucrats may be given little autonomy in making business and loan/investment decision making.
In the case of loans and investment, high percentage of respondents across ownership forms depends heavily on the board of directors to make decision in both periods under discussion. In 1995, state banks were under almost complete control of the MD and the ruling elite as shown by the strategic and loan/investment decision making authorities. In 2000, three of the five SOBS identified in majority shareholder or government responsible for loan decisions in 2000. Government continue to influence, although not in privatised banks (GCB, TBL), the non-privatised banks experienced no change in loan decision making over the periods. The private individual banks also exhibit some change in the ability of the board to act independent of the major shareholder and or the executive. The foreign banks maintained their position and have their decisions made completely independent of major shareholder(s) and or the executive.

The result confirms that board and top management are responsible for business, loans and investments decisions in 2000 in across banks. Apart from appointment decisions, it indicated change predominantly in SOBs in decision making over the two periods. The only difference between the FOBs and the SOBs was that whilst the foreign ones had their boards responsible for all major business decisions, non-privatised SOBs think the government or the sector ministry was responsible for appointments and business decisions making in 1995. GCB and TBL (state-private or partially privatized firms), again indicate that the board was involved in their business decisions (loan) in 2000. Bankers should make their own decisions, guided perhaps by general rules, but making inherently discretionary decisions like these for themselves so that one can know is entirely responsible for bad outcomes.97

5.5 Changes in Management Features

In addition to board reforms, executive and senior staff changes can bring in new management with capacities, skills, and resources that are more suited to the new market environment (D’Souza and Megginson 2000). In the pre-reform era, the appointment of managers needed the approval of sector ministry or the MOFEP. Though pre-privatisation restructuring under FINSAP I gave banks more autonomy in appointment of managers at branch managerial and departmental level, very often appointing managers was still heavily influenced by government agencies (Mensah, 2002). When the actual privatisation and deregulation were implemented under FINSAP III in 1995, an interesting question is whether the managers have gained more insulation from political pressures.

97 See Gillan, 2006
To address this question, managers were asked about the appointment of senior managers (branch managers, and departmental managers), their educational attainment, and possible affiliation to the government.party between 1995 and 2000.

5.5.1 Appointment of Branch and Departmental managers

The data on the senior management appointment follow the pattern observed at the board level. When the various subgroups of the ownership types were treated separately, all SOBs had less autonomy over managerial appointment and business decision making than those that were privatised SOBs for the two periods. In spite of management restructuring before 1995 the SOBs that were later privatised seem to have been controlled by the government, but, this quickly changes in 2000 to resemble the situation in FOBs. This may be due to the fact that the new managers replaced the old government appointees. Generally speaking, the partially privatised exercised more autonomy than their traditional counterparts, though some degree of autonomy was experienced in all SOBs. This suggests that transforming SOBs into private ownership and or control influences board decision making. Continues state influence may be due to the continuation of large shareholding and the importance of the banks to the government.

The 1995 data shows that all SOBs had top management positions completely filled by government appointees or bureaucrats from sector ministries. The situation had changed in 2000. Unlike other ownership types, little difference in party membership on SOB boards. This presupposes that non-divested SOBs are ever more likely to be exposed to political pressure through the top management than the privatised banks. The effectiveness of top management is related to the discretion available to him or her, provided effective mechanism is in place to the agency problem (Goll et al, 2008). Foreign banks recorded small change compared to the two others. For example, board of directors were largely responsible for corporate decision with no dominant owner involvement for the two periods. This re-iterated the fact that, the FOBs conservatively adhered to the way they managed during the study period and further equity acquisition from government had no significant effect.

5.6 Change in Compensation and Evaluation schemes

Privatization is also expected to change the directors’ monitoring of managers’ behaviour. A corporation’s board of directors is legally responsible for overseeing the performance of managers. Before the sector deregulation and privatisation, salaries were set according to nation-wide state

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98 Mostly from the SSNIT, MOFEP and BOG
enterprise payment scheme and were graded according to seniority of the post of the employee (see 2.7.6). When the reforms deepened in Ghana, the system of permanent employment weakened as people lost their jobs (see section 2.7.4). In such circumstances, it is to be expected that, with the reform of state banks, pay will have to become more closely linked to individual performance and various pecuniary means introduced to motivate employees.

In order to determine possible change in pecuniary and evaluation systems between 1995 and 2000, questions were asked on compensation schemes and evaluation system place over the period.

The results on this are presented in Table 5.7 and Table 5-8 and were supplemented by data from the banks’ Annual Reports and BoG sources. Table 5-7 shows that annual salaries were continued to be used in all ownership forms but the use of incentivised remuneration schemes have increased in the sector. Generally, the remuneration is largely salary and performance-bonus based for directors and top managers for the two periods. However, two of the SOBs indicated additional performance based compensation in 2000.

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Year</th>
<th>Salaries</th>
<th>Bonuses</th>
<th>Evaluation/compensation schemes &amp; policies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Executive</td>
</tr>
<tr>
<td>SOBs</td>
<td>1995</td>
<td>5</td>
<td>5</td>
<td>0(1)</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td>5</td>
<td>5</td>
<td>1(2)</td>
</tr>
<tr>
<td>FOBs</td>
<td>1995</td>
<td>7</td>
<td>7</td>
<td>7(3)</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td>7</td>
<td>7</td>
<td>4(3)</td>
</tr>
<tr>
<td>PIBs banks</td>
<td>1995</td>
<td>6</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total (all)</td>
<td>1995</td>
<td>18(100)</td>
<td>18(100)</td>
<td>16(88.9)</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td>26(100)</td>
<td>26(100)</td>
<td>26(100)</td>
</tr>
</tbody>
</table>

Source: Author’s own compilation from Questionnaire Survey data. *The data for privatised SOBs and FOBs in parenthesis.
Both state and foreign banks predominantly pay the executives and senior managers by monthly salaries. Compared to before 1995, the 2000 data shows the local banks were aggressively using incentive based remunerations in other forms to entice skilled individuals from their opponents. The increase in diverse incentive schemes in 2000, might have been influenced by rise in number of financial organisations (six of the eight FOBs and three of the six PIBs were established within this period), over the period of 1995 to 2000. This might have contributed to the scramble for or poaching of skilled staff. The results suggest that firms alter director incentives in an effort to deal with the increased complexity following liberalization, such as poaching and development of staff carrier observed (all the banks).

Again most of the private banks surveyed nevertheless responded that performance-based incentives are very important in their incentives for both periods. The FOBs show no changes as all the respondent banks indicate the presence of the evaluation and compensation schemes studied. Only three of the SOBs (those with private involvement) have regular evaluation, and paid according to market forces. Though all banks indicate that remuneration is market based for the two periods compared, evaluation of executive performance varied from bank to bank. A formal mechanism for evaluating directors’ performance between 1995 and 2000 seems to be operating effectively in most of FOBs and all PIBs and only two of the banks in public sector (SOBs). While the situation in private sector banks between the two periods registers no change in evaluation mechanisms in all the FOBs, 4 of the PIBs, 2 SOBs remained unchanged at the end of 2000. These two banks are both non-privatised SOBs. The response of the non-privatised banks, indicate that, the managers are not threatened by job losses in event of poor performance.

When respondents were asked to indicate any other forms of remuneration or compensation schemes in the banks between the periods, several schemes were listed across banks. These include; mortgages, car loans, paid executive holidays, free fuels and maintenance, career development schemes (outside Ghana), transfers to group branches overseas and house help services among others. The increased market and performance based reward, coupled with these various enticing incentives might be due to the increased number of new banks (six) and other financial organisation after the public sector liberalisation. The increased use of other forms of remuneration maybe due to pressure of the increased number of financial organisations over the period due to the deregulation and privatisation. The need for qualified top management and skilled essential staff becomes crucial to success; banks have no other choice than to incentivised staff to avoid poaching from others. These findings are consistent with Zingales (2000) who found that
attracting, motivating, and retaining talented employees and directors, is critical to the post privatisation success of the firm.

The result suggests privatisation incentive-based compensation for executives increased for the privatised banks. In the absence of pre-1995 employment protection schemes bank compensation structures of the surveyed banks turn towards to the use of incentive based remuneration to align shareholder and professional managers’ (executive and non-executive) interests and bank compensation structures are becoming more like those at nonbanks (DeYoung et al, 2013). The increased entry of foreign investors may likely force the local banks to change their compensation system in order to retain the valued skilled staff.

Apart from the non-privatised SOBs, most banks in 2000 evaluated managers and staff more in line with agreed business goals, and their rewards more linked to the results of such evaluation, than 1995. When the reforms deepened, the system of permanent employment may be abandoned and contractual employment began to prevail (Cuevo and Villalonga, 2000), meanwhile pay will have to become more closely linked to individual performance (Firth et al, 2006).

5.7 Change in behaviour and conduct of Top managers of the bank

It is believed that divestment of government shares and or control in business, should make the banks more efficient (Guedhami et al, 2009), by removing the grabbing hands and cartels that were in operation before the reform. Pre-1995 era was saddled with widespread top management irregularities and fraud at board and or management levels in the Ghanaian banks (Brownbridge, 1996). As a result, privatization or divestment of control professional managers with ethical behaviour replaced the old deadwoods. It is expected that there will be reduction in high level misconducts since top management were exposed to market forces and the regulatory framework introduced before FINSAP II.

The survey findings also show that executives’ compliance slightly reduced, but punitive measures were still ineffective in 2000. For example Compared to pre 1995, no top managers were arrested, interdicted, dismissed or were forced to resign across banks. Wrongs remained generally punished

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99 This situation is conditional on the independence and or ability of the regulatory framework to constrain the controlling agents of the bank (Johnson et al, 2000). Privatisation without proper regulation and supervision can easily lead to anti-social behaviour by bankers (Williamson, 1998).
across banks. Table 5-8 shows that there had not been much wrongs committed over the period in private banks. However, the most banks reported no change in disclosure breaches.

Table 5-8 Change in Director Compliance and Conduct

<table>
<thead>
<tr>
<th>Bank</th>
<th>Banking rule violation</th>
<th>Corruption/ Fraud</th>
<th>Disclosure breaches</th>
<th>Arrests/ Prosecutions</th>
<th>Termination/ Resignation</th>
<th>Conviction</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>5.0</td>
<td>3.0</td>
<td>3.0</td>
<td>1.0</td>
<td>5.0</td>
<td>4.0</td>
</tr>
<tr>
<td>FOBs</td>
<td>1.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>PIBs</td>
<td>1.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>5.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

**Source:** Author’s own compilation from Questionnaire Survey data.

The period saw little changes to actions taken in SOBs for the various wrongs committed by the top managers of the bank over the period. Between 1995 and 2000 no executive director were arrested on allegations relating to violation of the Banking regulations in any of the banks. In 1995, SOBs reported several wrongs, none of these resulted in prosecution or termination of appointment, and one PIB reported wrong doing and the directors was subsequently removed. The only wrong recorded in the FOB category was indicated by a former SOB (SG-SSB) prior to its privatisation. However, the respondents report that none of the executives who stood trial for the alleged improprieties were convicted of any of the offences during the period. Thus, by 2000 executives were not held for their conducts. Whilst the finding of reduced wrong doing across banking forms could be partly due to divestment of control by government, the inability of the culprits in SOBs to be penalised raised an issue of legal and or enforcement difficulties. It is however possible that lot of incidents went without reporting and are treated *insitu*, as the Ghanaian culture frowns on *washing dirty linen* in public.

The limited incident of wrong doings observed in FOBs may be due to increase monitoring by the new owners and the restructured board that replaced the old ones with questionable characters (Dyck, 2001). The inability to bring wrongdoers to book indicates the inability of government or its agents to regulate banks due to conflict of interest or weak regulatory framework and or properly enforced regulations (Arun, 2004). The continued breach in reporting or disclosure during the period
could be due to the inability of the central bank to enforce the law between 1995 and 2000. This result is in line with others who suggested that incentive for controlling agents to overlook regulatory infringements in the bank for the sake of political or selfish interests (Leuz et al., 2009).

5.8 Perceptions of the Effects of government share and control divestment on corporate governance of Banks

Having discussed the results of largely factual data above on state of corporate governance, this section moved to analyse the opinion data to answer the effect of the reforms observed in the last section. Opinions are subjective, but may be more useful than factual information. The degree of change in certain rules and practices and their underlying reasons may be obtainable only by asking expert opinions (Nam, 2006). An opinion survey can also obtain respondents' perspectives about priority tasks for enhancing corporate governance (Ibid).

The opinion survey results are presented in three sub-sections. These include; (1) Effects of privatisation policies on ownership structure (2) effects of privatisation on organisational and Staff restructuring measures ; (3) effects of the 1989 regulatory framework on (i) information disclosure; (ii)banking rule enforcement and overall corporate governance of banks; and (iii) (Act 673) after 2004 on corporate governance of banks.

5.8.1 Ownership structure and privatisation Measures.

The objective of the section is to relate privatisation ownership structure and ownership forms to the privatisation policy measures adopted under the FINSAP II. Ownership restriction was relaxed under the FINSAP II for private share ownership up to 100 per cent. Privatisation has improved operations and performance (Porta and Lopez-de-Silanes, 1999), but it failed to stop the 'grabbing hands' Dyck (2001). Since the opinions by the respondents are purely subjective, the results presented in this section are not treated with the same weight as the factual based responses in the previous section. They are used largely to corroborate the findings in the previous section and to provide a general picture on how the reform (Privatisation and regulatory changes) were viewed to have impacted on corporate governance.

Opinion based questions were asked in the questionnaire to establish how the changes in board composition and responsibilities, director compliance and liabilities, risk and disclosure requirements, bank regulation and supervision during the study period.

Deregulation of entry requirement (licensing regime), financial market development and FINSAP measures.
establishing how the ownership observed between 1995 and 2000 above was influenced by the privatisation measures implemented.

The result indicates that privatisation policies measures had affected the ownership structure of the banking sector of Ghana. Table 5-9 shows the various factors that had influence on the ownership observed.

Table 5-9 Effects of privatisation on ownership structure of banks

<table>
<thead>
<tr>
<th>Banks Forms</th>
<th>Partial divestment</th>
<th>Full divestment</th>
<th>Establishment of Stock Exchange</th>
<th>Licensing Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>Rank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y+</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Y</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>FOBs</td>
<td>Y+</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Y</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>0</td>
<td>6</td>
<td>0</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>PIBs</td>
<td>Y+</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Y</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total (all)</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Authors own compilation from Survey Data. Y+ = to a large extent; Y to some extent 0 = no effect.

Commonly listed measures include; divestment of government shares, licensing changes (entry liberalization) and Foreign Direct Investment (FDI) encouraged the involvement of private sector (foreign and local) in banking business.

The private sector banks respond more positively ("large extent" or "some extent") to the factors that influenced the ownership structure. Privatisation (full and partial) had had very important effects on bank ownership in six banks that were in operation between 1995 and 2000. Strong positive ("large extent ") responses to the impact of FDI/licensing reforms emerged from the private sector 100% of the FOBs and PIBs, in contrast to about 40% of the SOBs. Stock market establishment contribution to the ownership structure was indicated by banks as being important. The low impact

104 In this regard, the respondents were asked to express the extent to which they agree or disagree on a given statement from Y+ (large extent); Y (to some extent); and 0 (no effect).
observed might have been due to the fact that, most of the state banks were either not listed or earmarked for divestment on GSE. The over-all effects of privatisation observed might be due largely to the 1989 regulatory framework that allowed private share ownership up to 100% and the reluctance of government to go all out for free for all divestment.

5.8.2 Organisational and Staff restructuring measures

In addition to management level changes discussed in 5.4, organisational and staff changes can bring in new capacities, skills, and resources that are more suited to the new market environment. We expect that organisational structure and pre-reform large workforce of the banks will be streamlined; especially the rationalisation of branches and staff will be carried out. Functional management is also crucial to a successful business and a change, especially in management and middle management and or skilled staff category is often crucial for new strategic direction to be built and for a new culture to be introduced into the firm (section 2.7.3 ii). Thus, reforms to the branch managers, key or skilled staff and closing of poorly performing branches are crucial to the survival of the bank.

Questions were asked on appointments, employment conditions, labour lay-offs, branch closures, skilled staff recruitment and training between 1995 and 2000. Respondents were asked to indicate the extent of these organisational and staff reforms in their banks.105

Out of the 18 banks in operation between 1995 and 2000, only ten indicated a change in one or more of the issues raised.106 The table shows extent of change in organisational and staff rationalisation, between 1995 and 2000, questions were asked on the closure of branches and redundancy of staff carried out within the period. The data indicates that privatised banks and or banks with private involvement reported restructuring in organisational and staff indicators studied between 1995 and 2000 (Table 5-10).

---

105 (In this regard, the respondents were asked to express the extent to which they agree or disagree on a given statement from Y+ (very large extent); Y (large extent); Yo (some extent); and N (no change).

106 The rest of the banks all of which are private banks (FOBs and PIBs) were excluded from the analysis.)
Table: 5-10 Organisational Changes between 1995 and 2000 (%)

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Change working conditions</th>
<th>Lay-offs</th>
<th>Improved incentives</th>
<th>Pecuniary</th>
<th>New recruits</th>
<th>Training</th>
<th>Branch closures</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GCB*</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>NIB</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>MBG*</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>TTB*</td>
<td>Y+</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y+</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>FOBs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SCB*</td>
<td>Y+</td>
<td>Y+</td>
<td>Y+</td>
<td>Y</td>
<td>Y+</td>
<td>Y+</td>
<td>Y+</td>
</tr>
<tr>
<td>BBGL*</td>
<td>Y</td>
<td>N</td>
<td>0</td>
<td>N</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>SG-SSB*</td>
<td>Y</td>
<td>N</td>
<td>0</td>
<td>N</td>
<td>0</td>
<td>Y+</td>
<td></td>
</tr>
<tr>
<td>EBG</td>
<td>0</td>
<td>0</td>
<td>Y</td>
<td>0</td>
<td>Y</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>CAL</td>
<td>0</td>
<td>0</td>
<td>Y</td>
<td>0</td>
<td>Y</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Authors own compilation from Survey Data. Y+ = to a large extent; Y = to some extent; 0 = no effect. N= disagree; and N+= disagree totally. *Banks with private investor involvement or privatised.

The answer suggested that, unlike the non-privatised SOBs, the privatised ones had extensive staff rationalisation to reverse the pre-reform inefficiencies. For example, GCB and TTB recorded high restructuring measures compared to the banks with no private ownerships (NIB, ADB) between 1995 and 2000. Apart from SG-SSB (fully privatised), all the other foreign banks to some extent experienced reforms in pecuniary incentives, training, and branch closures. This could be due to their corporate governance structures being made to conform to their foreign parent groups’ standard before 1995. The new foreign banks and domestic banks disagreed or disagreed totally (excluded from the data). This might be due to the fact that, these banks were newly established and might have already adopted good practice promoted by FINSAP II. The marked change occurred in
the banks with divestment of government shares between 1995 and 2000. This could have been due to the actions taken by the new owners and or the reconstituted board to ensure comprehensive organisational reforms.

Table 5-10 shows that most banks agreed that that training and pecuniary incentives had increased between 1995 and 2000. This change could be attributed to the increase number of financial firms that triggered struggle for skilled staff. The change in senior managers and skilled staff, observed in privatised banks was crucial for a new strategic direction to be built and for new culture to be introduced into the organisation. When enterprises move into new competitive environment this may be associated with changes in senior management, to introduce fresh blood more able to manage successfully in the face of new commercial pressures (Packer, 1995). It may also cause a paradigm shift in work culture where old ways are exchanged for new ways of doing things (Argyris and Schon, 1978). Bringing new blood in at management in changing situations can re-assure new owners that the business run professionally.

5.9 Changes in law and regulatory enforcement

Privatisation is argued in section 2.7 above to have increased the severity of agency problems and the need for more efficient governance structures. It is therefore premised that regulatory and legal reforms of the banking sector would lead to increased external regulatory mechanism - increased regulatory and supervision (Corlin, 2006). It is believed that the reforms to the regulatory framework in 1990 will create a regulatory and legal environment in which the quality and effectiveness of bank risk management can be optimized in order to contribute to a sound and reliable banking system.

5.9.1 Information Disclosure

Timely disclosure of accurate information on important firm-related matters is crucial for the protection of shareholder rights. In the course of providing banking services, conflicts of interest arise often among different bank clients, between bank (insiders) and clients, and between bank and bank insiders (Gup, 2005).\(^\text{107}\) Having written and implemented the law before the FINSAP III, one will expect that investors are protected through quality disclosure and robust regulatory enforcement.

\(^{107}\) Literature further advocates the importance of maintaining the bank's public confidence and trustworthiness by ensuring senior management’s implementation of policies and procedures that prevent abuse of conflicts of interest (Polsiri, 2005).
The result shows that the regulatory reform placed important emphasis on content of information disclosed, somewhat important on accuracy of the information, but much less important on timeliness between 1995 and 2000. All the banks interviewed in this category either think the content of the information disclosed is dealt with effectively by the prevailing law (“Very effective, effective or neither”). Total scores were then worked out for each of the ownership types, and the all the banking forms scored highest for information content (Table 5-11).108

Table 5-11: Information Disclosure Quality of banks

<table>
<thead>
<tr>
<th>Bank forms</th>
<th>Accuracy</th>
<th>timeliness</th>
<th>content</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>Y+</td>
<td>0 (0)</td>
<td>0 (0)</td>
</tr>
<tr>
<td></td>
<td>Y</td>
<td>1 (2)</td>
<td>0 (0)</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>4 (4)</td>
<td>5 (5)</td>
</tr>
<tr>
<td>FOBs</td>
<td>Y+</td>
<td>1 (3)</td>
<td>0 (0)</td>
</tr>
<tr>
<td></td>
<td>Y</td>
<td>2 (4)</td>
<td>1 (2)</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>4 (4)</td>
<td>6 (6)</td>
</tr>
<tr>
<td>PIBs</td>
<td>Y+</td>
<td>3 (12)</td>
<td>1 (3)</td>
</tr>
<tr>
<td></td>
<td>Y</td>
<td>1 (6)</td>
<td>1 (2)</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>2 (0)</td>
<td>4 (4)</td>
</tr>
<tr>
<td>Total (Average)</td>
<td>18 (1.9)</td>
<td>18 (1.2)</td>
<td>18 (2.7)</td>
</tr>
</tbody>
</table>

Source: Survey data; Scale Y+ = 3; Y = 2; and 0 = 3; aggregate scores in parentheses

Accuracy was considered in-between effectiveness and ineffectiveness (1.9) out of 3.0. The timeliness was not dealt with effectively by the legal framework (mostly ineffective), with the lowest score of 1.2 out of the maximum of 3.0. However, a sizeable number of PIBs and some FOBs think the regulatory framework was concerned with all the parameters concerned. This was not the case in SOBs, most of them did not think accuracy and timely disclosure was effectively done by the prevailing regulatory framework.

108 Respondents ranked the impact on the scale of (Y+) Very effective = 3; (Y) Effective = 2; and (0) neither effective nor ineffective = 1
5.9.2 Regulatory Enforcement

A weak enforcement of property rights led to a unique set of problems in privatized firms. Law and quality of its enforcement are likely to influence monitoring role played by the market (La Porta et al., 1998). Post privatisation monitoring by external mechanism to be higher after reform to regulatory mechanism prior to the sector privatisation.

Questions 7.2.2 attempts to find out how swift banking rules or regulations were enforced between 1995 and 2000. The respondents’ opinion was asked on the degree to which sanctions are met out or swiftness of intervention of the bank of a Ghana. Table 6-18 shows the regulatory enforcement between 1995 and 2000.

Table 5-12 shows that sanctions or interventions toward breaches were slowly carried out. While 5.5 % and 16.7% of all banks (“swift or ”slow”) to the questions whether how swift are the rules implemented, such positive responses account for four of the private sector banks. All state banks indicate that response to breaches had been slow.

**Table 5-12 Enforcement of banking rules**

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Very swift</th>
<th>Swift</th>
<th>slowly</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOBs</td>
<td>Y+ 0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Y 0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Y- 0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>FOBs</td>
<td>Y+ 0</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Y 0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Y- 0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>PIBs</td>
<td>Y+ 0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Y 1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Y- 0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total (Avg)</strong></td>
<td>1(5.5%)</td>
<td>3(16.7%)</td>
<td>14(77.8%)</td>
</tr>
</tbody>
</table>

Source: Survey data

Consistent with the effectiveness of the prevailing law, most of the respondents do not think the enforcement of the rules or response to breaches had been swift enough. Only four private sector banks think sanctions and interventions were swift. None of the SOBs responded in the positive. The finding shows regulatory enforcement was not uniformly done or the private sector banks depend heavily on their internal policies or their parent group policy on information disclosure. The inability
of the prevailing regulatory system to deal with the quality of information and to enforce the rules, it is unlikely the central bank can exert monitoring and eliminate expropriation. Property rights would have been protected if quality of information and enforcement of disclosure were improved. In similar studies, Pagano and Roell (1998) confirm that, developing countries with weak per capita income is generally weak.

5.9.3 Impact of the prevailing regulation on corporate governance of banks

Several cases of privatisation failure were due to lack of careful consideration for regulatory framework and the post privatisation failures of public banks can be linked to weak and or poor regulatory enforcement (see section 2.7).

To examine the effectiveness of the prevailing regulatory framework, respondents were asked to give their opinion on the effect of the prevailing regulatory system on bank supervision and internal mechanism of the bank between 1995 and 2000. The result shows that the impact of the regulation on corporate governance was generally weak on the scale of 0 to 5. The result in Table 5-14 below gave mixed responses for across ownership forms. None of the respondents indicated “No idea” in Tables 5-13 and 5-14.

Table 5-13 presents the responses by bank on the effectiveness of the prevailing or 1989 law on corporate governance of banks. Generally, low scores were registered by the pre-1995 banks in regulatory enforcement and the increased overall operational environment. Thus, pre-FINSAP banks generally disagreed that, the 1989 banking law was effective in corporate governance of bank between 1995 and 2000. Whilst PIBs gave high scores to the effect of the prevailing regulatory system on corporate governance, the older banks (SOBs and FOBs) responded in the negative by reporting low scores.

---

109 The question in this section asked the respondents to rank on the scale of 5 to 0. Y+ (strongly agree =5); Y (Agree = 4); Y- (Somewhat =3); O (Neither agree nor disagree =2); N (Disagree =1) and N+ (no idea=0).
Table 5-13: Prevailing regulatory framework and corporate governance.

<table>
<thead>
<tr>
<th>Responses</th>
<th>Increased bank regulatory supervision</th>
<th>Increased internal mechanism</th>
<th>Overall Banking Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>On-site</td>
<td>Off-site</td>
<td>rule enforcement</td>
</tr>
<tr>
<td>SOBs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y+</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Y</td>
<td>0</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Y-</td>
<td>3</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>N-</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Avg</td>
<td>2.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>FOBs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y+</td>
<td>0</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Y</td>
<td>4</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Y-</td>
<td>6</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>N-</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Avg</td>
<td>2.1</td>
<td>2.7</td>
<td>2.6</td>
</tr>
<tr>
<td>PIBs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y+</td>
<td>10</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Y</td>
<td>4</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Y-</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>N-</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Avg</td>
<td>3.7</td>
<td>4.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: Author’s own compilation from Questionnaire Survey data.

When the three subgroups were compared, the traditional SOBs had much lower score for the impact of the prevailing regulatory system on corporate governance of banks. Apart from PIBs, most banks did not regard the 1989 regulation as being effective in regulatory enforcement and regulating
internal mechanism. This presupposes that, pre-privatisation regulatory framework is not a solution to banking failure, unless it is enforced. Continued state influence and or lack of the necessary autonomy of the BoG as a supervisory agent might have underpinned the opinion of older banks (SOBs and FOBs).

This observation also attest to the fact that, the regulators paid more attention to new private banks may be to prevent free managers from expropriating depositors’ funds. Similar to previous studies, SOBs are likely to be the least tightly regulated. For example, whereas a regulatory authority can credibly threaten a private bank with the suspension of license, such threats are immaterial when it comes to government banks (Mian, 2003), their hands are heavily tied up when it comes to dealing with SOBs (Arun and Turner, 2009).

5.9.4 Impact of the banking law 2004 on the corporate governance of banks.

Respondents were asked to rank their opinion on how they view the effect(s) of 2004 law (Act 673) on supervision; internal control, banking environment; director conduct or compliance in the bank. This gives an idea as to how the banking law introduced after post privatisation banking crisis has impacted on corporate governance.

A table 5-14 present the extent of respondents believes that 2004 law is more effective in corporate governance of banks. Unlike the pre-privatisation law examined above, most of the surveyed banks expressed the opinion that the 2004 regulatory changes were most effective in corporate governance of banks. High scores were registered by the three banking types in regulatory enforcement and the increased overall operational environment.

---

110 The question in this section asked the respondents to rank on the scale of 5 to 0. Y+ (strongly agree =5); Y (Agree = 4); Y- (Somewhat =3); 0 (Neither agree nor disagree =2); N (Disagree =1) and N+ (no idea=0).
Table 5.14 Effect of regulatory and supervision reforms in 2004 on corporate governance

<table>
<thead>
<tr>
<th>Banks</th>
<th>Increased bank regulatory supervision</th>
<th>Increased internal mechanism</th>
<th>Overall sound environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>On-site</td>
<td>Off-site</td>
<td>Enforcement</td>
</tr>
<tr>
<td>SOBs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y+</td>
<td>15</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Y</td>
<td>4</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Y-</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>N-</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Avg</td>
<td>4.4</td>
<td>4.2</td>
<td>4.6</td>
</tr>
<tr>
<td>FOBs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y+</td>
<td>25</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Y</td>
<td>16</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Y-</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>0</td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>N-</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Avg</td>
<td>3.6</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>PIBs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y+</td>
<td>30</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>Y</td>
<td>4</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Y-</td>
<td>0</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>N-</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Avg</td>
<td>4.9</td>
<td>4.6</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: Author’s own compilation from Questionnaire Survey data.

Table 5.14 show that most banks agreed that regulatory and internal mechanism had improved since the changes were implemented. When all banks are considered, regarding whether the regulatory changes had led to increased regulatory supervision, most agreed (Y+, Y, Y-), whilst three banks neither agreed nor disagreed. Unlike the 1989 regulatory framework discussed in 59.3 above,
increased effect of the 2004 banking law on corporate governance was evidence in Table 5-14, suggesting an increase in regulatory supervision long after the FINSAP had been implemented.

The result for the internal mechanism observed is mixed across banking forms. While the SOBs and PIBs registered equally higher scores (Between 3.8 - 4.3 out of 5.0) for increased internal mechanism, FOBs registered lower values (between 2.6 - 2.9). This might be due to the fact that, FOBs had been engaging qualified individuals before the introduction on fit and proper concept of international best practice promulgated by the 2004 banking law. The high score for the SOBs for the post-privatisation also gave an insight of much more regulatory enforcement by the BoG. This is not surprising, as the government exercised its political will and allowed three insolvent banks including two SOBs to be liquidated without any further attempt to recapitalise them in 2000. While 1989 law was silent on ownership and BOD issues, 2004 banking Act addressed this internal mechanisms and reduced it to hard law enforceable in court.111

5.10 Conclusion

As part of general liberalisation under the FINSAP, the government deregulated the banking sector and privatised some of the public banks and put others up for sale between 1995 and 2000 (FINSAP III). By studying the changes in ownership, BOD, management and compensation in the banks, this chapter had presented the preliminary assessment of the effects of the public banking sector privatisation on corporate governance of banks. The government and the central bank adopted a gradual and strategic privatisation method. The 1989 regulatory framework deregulates the ownership of shares in the banking organisation, making it possible for the private sector to potentially own up to 100 per cent in shares. Between 1995 and 2000, up to six banks had been divested fully or partially. It was found from the study that this approach resulted in high concentration of banks in the hands of the various ownership forms. Government shares in the privatised banks were acquired by foreign investors, who are more likely to monitor and evaluate their investment.

The chapter highlighted a high concentration of shareholding by the sponsors across the three ownership types before and after privatisation. Whilst this chapter indicates concentration of private ownership over time, it also shows that on average, privatization results in control relinquishment by the government. The dominant shareholders within the banks indicate a high degree of ownership

111 Refer to section 4.5.1 discussed earlier. However, there is no corporate governance code for the banking sector of Ghana.
concentration by the largest shareholder regardless of ownership type. The differences in the largest shareholders are only in the identity of the largest shareholder. These investors were the government in the case of state banks, foreign investors in foreign banks and institutional investors in the case of private indigenous banks. The widespread concentration of ownership across banks is mostly due to the privatisation method adopted coupled with the deregulation measures that allowed for bank ownership up to 100% by reputable institutions.

Generally speaking, there seem to be signs that progress has been made by banks in introducing more business-profit oriented practices. Firms now seem to put a higher priority on market oriented objectives than they were in 1995. They also enjoy greater autonomy when appointing or dismissing managers and staff. They also have the discretion on the compensation package of the BOD and management. The sector-wide privatization also appeared to have helped in fixing the incentives of the managers and other skilled workers. Monetary incentives after privatization become stronger in both compensation and pay-performance sensitivity of managers. Unlike in pre-1995 era firms, managers in liberalised environment do face the threat of dismissal if they under perform. On the issue of compensation, all banks adopted incentive based remuneration in addition to the annual salary system to attract and maintain qualified individuals in the banks. More banks, especially the state owned banks adopt different bonus and incentive schemes between 1995 and 2000. But most SOBs indicate this is not based on performance, but to keep staff from being pouches by other banks. Evaluation of senior staff performance was widespread in the foreign banks, followed by the domestic private banks. Apart from the listed state banks (GCB), all the others do some form of evaluation but for promotional reasons rather than performance improvement.

Evidence from the questionnaire survey further suggests that while the fully owned SOBs were intended to provide improved conditions for market oriented behaviour, the changes do not appear to have been sufficient to lead to greatly changed behaviour in SOBs in complete state hands. The partially owned banks have much more convincing changes in corporate governance practices. The result shows that effective corporate governance structures are critical to promoting organizational outcomes. It has also been noted that the few directors were either arrested or forced to resign for corporate governance violations across banks. The results also indicate that none of the directors who were arrested were convicted on any of the charges in the two periods studied. The results have also highlighted the prevalence of loans to the board in 1995 and a reduction in 2000. It has also been observed that local banks, particularly private indigenous banks were largely affected by the related party transactions over the study period. The opinion based responses on board features
have also supported these findings, suggesting that autonomy increased between 1995 and 2000 due to the reforms introduced.

Unlike the 1989 regulatory framework, most banks indicate that the 2004 banking Act had been effective in curbing top management misconduct and enhanced their compliance to the rules of the game. They generally agreed that the post privatisation regulatory reforms have had a positive effect on these measures. Thus, the banking law of 2004 appeared to have prevented expropriation or grabbing hands of the controlling agents of the banks that survived the post privatisation failures.

The result of the questionnaire survey need to be treated with some caution, considering that the sector privatisation happened long ago, it is likely information given may not quite represent what pertained about 15 years ago. In spite of 100% response rate, the findings of the questionnaire survey need to be assessed against other evidence. To this end in-depth case studies were undertaken in six selected banks established before the sector privatisation based on interviews and branch and central bank data. The result is reported in the following three chapters. Chapter six looks at SOBs; chapter 7 discusses the answers from the FOBs; and chapter 8 compare the ownership forms and summarised the findings.
Chapter Six: Corporate Governance practices in Banks with government residual ownership established before FINSAP

6.1 Introduction

The questionnaire survey chapter presented a broad picture of the ownership structures and corporate governance practices in the Ghanaian banking sector between 1995 and 2000. Chapters six and seven use case studies in selected banks to explore the impact of government of Ghana’s residual ownership on corporate governance of banks between 1995 and 2000. According to the theoretical framework discussed in Chapter 3, the extents of residual government ownership affect corporate governance of banks differently from those in private hands or fully divested. Similarly, the conduct, behaviour and or grabbing hands of the players or stakeholders in the banking industry may be shaped by the regulatory system in which they exist and in reaction to the constraints and incentives they face.

In total, five case studies are analysed. They are grouped into two categories based on whether the banks are in the hands of the state or in foreign institutional investors before FINSAP II or between 1995 and 2000. This chapter analyses two cases of banks with residual state ownership (partially or capitalised). Chapter seven presents evidence from another group of three banks, which are either fully privatised former state banks or traditional foreign banks that buy-out stakes of government in them. Chapter 8 concludes the case study analysis by making a comparative analysis of the banks in these two groups (A and B).

The rest of this chapter examines SOBs in Group A, namely COOP and GCB. In so doing the remaining section addresses research question, which largely examine the effect of the continuous state ownership of banks on corporate governance. The first case is COOP liquidated together with the Bank for Housing and Construction (BHC) in 2000 after its capitalisation. This group of cases also investigates the effects of the continuous state ownership on corporate governance of banks in Ghana. Under state ownership the government is both the owner and the regulator of assets, leading to a potential conflict of interest. State ownership is also associated with disincentives of agents to monitor and evaluate management effectively as government officials maximize their own incentives.

These banks experienced pre-privatisation restructuring between 1991 and 1994 already discussed in section 4.4, to make them more attractive for private acquisition or foreign direct investment (FDI).
utility which is not necessarily consistent with profit maximization of the firm (Miranda and Lerner, 1995). This problem becomes further aggravated when the government itself changes the firms’ objectives frequently to accommodate the interests of different pressure groups (Ibid). Though some failed to prove it, government ownership of banks increases the likelihood of banking crises in firms. The changes in the percentage of the banking shares held by government in banks approximates the cause of crisis (Cull et al. 2002).

6.2 The Case of Cooperative of Ghana

COOP was recapitalised and corporatised with the view of making it more efficient as part of the sector wide privatisation drive with the help of a selected local financial institutions. As discussed in section 2.7, local institutional investors play a better role in advocating better firm-level governance than the original SOBs, but are equally susceptible to political agents and may lack the resources and knowledge to monitor management. It is important to consider a traditional state owned bank with local institutional involvement alongside the predominant SOB that partially divested on the stock exchange in analysing corporate governance differences in the banking sector.

6.2.1 Background of the Co-operative bank

Cooperative Bank (COOP) was licensed in 1975, twenty-seven years after it had operated as a co-operative society mainly in the cocoa growing areas. It had its genesis in the Gold Coast Co-operative Bank, which was established by the Association of Cocoa Co-operative Societies in 1948. Its main objective was deposit mobilization and financing cocoa purchases by the co-operatives. This bank was closed down by the government in 1961 for political reasons, and its affairs were taken over by the Ghana Commercial Bank. In 1973, it was revived but it began operations only in 1975. Co-op was founded in Ghana in 1974 by the Registrar of Co-operatives instituted by the Cooperative Societies Decree 1968 NLCD 252. It gained a limited liability company status in 1992 as part of the financial sector liberalization. The owners of Co-op were the Ghana Government, the Social Security and National Insurance Trust (SSNIT), the State Insurance Company (SIC), Co-operative organizations and some individuals.

6.2.2 Change in Ownership structure

The bank was predominantly owned by few public and private local financial institutions, with less than 20 percent in the hands of the cooperatives after its privatisation. Prior to its recapitalisation and corporatisation, the poor financial position precipitated the state divestment of state shares and
control. In 1986 a share flotation with a target of €500 million yielded only €135 million. It could not meet the statutory capital requirement of 6% of risk-rated assets set by the BOG during 1988 and 1989. The bank was then removed from the Bank Clearing House System because of liquidity problems, so it arranged to clear its cheques through the NSCB between 1989 and 1992. The Bank of Ghana suspended operations of the bank on the 30th June 1992 for two weeks, during which the ownership structure was changed and its legal status changed into a limited liability company (from co-operative ownership). The bank was recapitalised by the bank of Ghana (BoG), State security and National Insurance Trust (SSNIT) and State Insurance Corporation (SIC), diluting the holdings of the cooperatives and other institutional shareholders. As at 1997, the government equity through these public institutions rose to 81 percent, with the remaining 19% in the hands of cooperative members. The equity dilution by these state institutions re-enforce state grip on the bank, since it appoints the directors to the board. Evidence suggests that COOP was owned largely by SSNIT, making it more of an SOB. Local institutions such as these maybe hampered in their monitoring efforts because the information asymmetry and monitoring problems due to resources and expertise constraints.\(^\text{113}\)

Local Institutional owners may have previous business relationships with the banks and render them ineffective monitors (see section 2.7.2).

A former executive of the bank (DJKA) observed that, the bank’s ownership structure typified a state owned business as the main shareholders of the bank were state public institutions. According to him, the bank restructuring and change in equity position did not change control structure with the government still holding close to 80% of equity through its public institutions. The only change he indicated was the appointment of more bureaucrats from the public institutions and reduced number of the professional politicians on the board. He regrettably recounted the continuous collusion between the board and the executive during the period. For example, the Managing Director had ultimate control of the bank but used the board to rubber stamp his decisions. DJKA referred to this partnership as ‘scratch my back’. The onsite examinations by the BSD between 1995 and 2000 revealed serious insider trading, extremely poor-lending practices, and very weak credit administration and risk management system problems which were also discovered at COOP. In this conclusion, it appears the central bank’s inability to highlight Managing Director’s inadequacies due to his affiliation to ranking political figures in the government.

\(^{113}\)The controlling agents potentially and practically could exploit the dominant owner situation to undertake risky activities, whilst other stakeholders share the cost (Mehran and Adam, 2003).
6.2.3 Change in Board of Director and top management

The study noted that, the change in ownership caused no major changes on board features, as most members remained at post after 1995. In the absence of survey data on COOP, the study depended mainly on the interviews and secondary sources for the case.¹¹⁴ During the interview, the respondent did not indicate any changes in most of the corporate governance issues relating to BoDs and management issues during the study period. Thus, no real change took place, in spite of the pre-privatisation restructuring between 1990 and 1992 discussed in section 4.4 by government through the sector ministry. For example, consistent with pre-privatisation practice, directors were handpicked bureaucrats¹¹⁵ and or connected individual to the ruling government at the end in both 1995 and 2000. Apart from the politicians, the rest of the board was occupied by the bureaucrats from SSNIT, BoG and SIC the public institutional shareholders of the bank. The bank continued to rely on the pre 1995 board and management until new government came into power in December, 2000. The lack of new owners or liquidation of minority shares of the private investors might have informed the hesitation to bring in professional managers that are qualified to run banking organisations successfully.

6.2.3.1 Board Composition and Independence

The independent of the board was compromised by the continuous appointment of political elites to the board after the reforms. Since the relationship (paternalistic) between directors of the bank and the state did not change over the period the board independence remained blurred. The board did not appear to exercised objective and independent judgment in this case over the two periods under study. The lack of transparency in the procedure of selecting the board members appeared to have affected the autonomy and competence of the board.

DJKA opined that, the outside directors appointed appeared to have increased during the period, but, they remained largely the bureaucrats from the public institutions and some politically connected individuals.¹¹⁶ Appointment decision making did not change after the IMF prescribed board and top management restructuring. DJKA further suggests that, until its liquidation in 2000,

¹¹⁴Though the bank was liquidated, the interviewee was asked to indicate if there have been changes to board size, Number NEDs, committees, objective and function, and member qualifications. Interviewee was made to give his opinion on the board of director and management features in 1995 and 2000 respectively

¹¹⁵Prior to the reform qualification of top managers were school leavers and or had non-finance related qualifications, hence had little knowledge in bank management.

¹¹⁶The annual reports for the periods shows that more than 60 per cent of directors were picked from the shareholding public institutions and the ministry of finance.
the board members were selected and appointed by the Ministry of Finance and economic planning (MOFEP) on behalf of the government. It is normally the Minister of Finance who makes the selection of directors on behalf of the government of the day. He confirmed that the political affiliation was the major, and in most cases, the basis on which people were appointed as directors of the bank during the period under review. This view was also supported by the chief executive of the State Enterprises Commission interviewed. DJKA noted that political alignment of board members is required by ruling class as they assumed loyal boards will help keep strong grip on the bank. As such, they become “instruments of management” and are not effective in identifying and correcting problems resulting in “double agency” problem. Thus, management acted in the best interest of the state as the shareholder, while at the same time “becoming the agent of the SOB on the board of the investee companies”\(^1\).  

DJKA indicated that the executive directors, and in particular the MD, had ultimate control of most bank decisions whilst the board was often used to rubber stamp management decisions. The chairman of the board was considered to be more of a public relations position than to monitor management decisions and protection of stakeholders before and after the change in equity structure of the bank. The political affiliation of the external and internal directors made the increase in non-executive directors on the board irrelevant. Examples cited, was that, the bank extended loan based on directives from the sector ministry and the seat of government to applicants in both 1995 and 2000. This arrangement continued after 1995 giving the MD and the executives’ upper hand in the handling of the banks affairs, with minimum board input. The meeting of the board did not improved and the outside director participation and board decision making did not improve either.  

MRAH, a former board member of the bank described the relationship between the board and the executive directors to colleagues in politics type. This further compromised the board’s independence in its fiduciary duty of providing oversight to management. MRAH indicated that the executive directors, and in particular the MD, had ultimate control of most bank decisions whilst the board was often used to rubber stamp management decisions. It was noted from the interview that the MD protected himself by staining the hands of the board members and expect the board to

\(^{117}\) many such board members on serve by virtue of their position as management of the shareholder and not necessarily because of their qualification and experience, thus making board membership a “perk of the office” (Mensah, 2002)
reciprocate by supporting him (at least by remaining indifferent to banks operation). For example in 1998 MRAH recalled vividly that chairman started a meeting by asking “Is my vehicle ready for my trip to Kumasi”. Once the MD responded in affirmative that the cross country vehicle was ready for his use, the meeting was already at its end. The rest of the meeting time was used by the MD to brief the three members present on the bank’s operations. The increased external directors did not appear to have translated into increased objective director participation in deliberations and decision making.

6.2.3.2 Board Qualification, Knowledge and Expertise

It appears from the interview that officials of the board in both 1995 and 2000 qualified in various fields, but not necessarily competent enough to run bank business. It was also evident that attempts were made to appoint more graduates and professional and consistent with the banking rules in 2000. However, government is seen as just ticking the box in order to satisfy BoG requirement and create impression that the bank is being run well. Though DJKA agreed that, more graduates were engaged in 2000 than in 1995, most of these appointees to the board had limited knowledge in banking. For example, it was common to have graduates in History or with non-managerial backgrounds on the board. As part of the restructuring, the board was replaced with fresh government appointees’ purported to have satisfied BoG qualification criteria. Hence politicians and bureaucrats with various backgrounds were serving on the board, but they lacked expertise in bank business. “The only change that took place between 1995 and 2000 has to do with increase in graduates on the board, but, bank related discipline did not diversify enough to ensure good governance” DJKA confirmed. The lack of requisite qualification may have potential repercussion on the board’s competence to run a bank successfully. For example, board meetings were used mostly for the MD to brief the board on the state of affairs, with minimum external director participation.

6.2.3.3 Objectives and Board Functions

Consistent with the discussions above, DJKA argued that the bank was being run by government through the executives whose agents had no plan for the bank but consider it as an extension of their political office. The various board committees were noted to remain inactive, as the executive take both strategic and operation decisions. External directors were unable to discharge their duties satisfactorily because they did not devote enough time towards the operations of the organization

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118 Envelops full of cash was believed to be changing hands and non-executive directors not present in meetings also benefit from such hand outs. These favours were rewarded by allowing the executive to operate with minimum monitoring and oversight.
and were irregular at meetings. Sometimes information was passed to the directors so close to the meeting date that they did not have the time to read and digest the information contained in the papers. As a result, the board members lacked the necessary information to contribute meaningfully to board deliberations.

6.3 Organisational and managerial changes

It appears from the interview that, the only organisational reform was limited to the pre-privatisation restructuring discussed in section 4.5.3.2. The management and staff engagement according to the interview produced managers and staffs that were unable to appreciate and control a business, unable to comply with lay down banking procedures and rules. Insufficient number of skilled staff, middle managers, was left to handle huge work load in the bank. This situation could be due to the lack of real re-organisation of the bank and its human resource capital. For example, Most of the top management of the bank remained unchanged after restructuring, as managers with long tenures clung to their job for survival.

6.3.1 Changes in Managerial Features

Management features of the bank equally remained unchanged between 1995 and 2000 and top managers lacked the necessary skills required to manage day to day issues of the bank. There appears to be no real restructuring of management and key staff at any point between 1995 and 2000. The continuous involvement of MOFEP and other state agents in recruitment affected the quality and performance of the senior staff engaged by the bank between 1995 and 2000. Entry level bankers were recruited through a recruitment system of the bank shrouded in secrecy, with no positions advertised. This created a fertile ground for nepotism and corruption in engaging key staff of the bank. MRAH suggested that the board was powerless in the matters of promotion and transfer authority officially lies with the MOFEP. In 2000, recruitment was similar to public service mechanism, recruitment of outsiders for middle level management positions were not advertised. Above middle management level, the board was powerless as the promotion and transfer authority officially lies with the MOFEP. It was expected that the executive will be involved in appointment and other decision making efforts after the restructuring in 1994.

The management didn’t seem to be suitably qualified either so the problem was not just government intervention but the quality of the people. It is important for the people involved in running banks to be qualified and honourable people.” Though branch managers could be appointed by the executive
committee/MD, it was reported that, the MD appointed only his favourites and those suggested by the government agents. As part of the corporatisation measures, some new faces were engaged, but, due to the appointment criteria, the so called *new blood* were not so qualified and or of high calibre in line with reform objective. The bank also struggled to attract experienced staff from established banks due to a perception of poor career prospects at the bank. Another factor which could have affected COOP core competencies was a high level of staff turnover in both branch management and skilled staff, as the bank fight to keep skilled human resources resulting from the increased banking institutions between 1995 and 2000. These situations potentially and practically have contributed to poor management capabilities within the bank.

### 6.3.2 Bank and Staff Rationalisation/training

There was no meaningful rationalisation of poorly performing branches or further restructuring in staff numbers between 1995 and 2000. The change in staff force had been rare, hence introduction of new staff between 1994 and 2000, was seen to be insignificant. It was indicated that the bank still suffer from over manning prior to 2000 and gave an indication of replacement of old incompetent and or poorly qualified staff was made during the period. DJKA shows there were staff attrition and replacement over the period. Replacement for these positions were never advertised and shredded in secrecy. This situation of over manning had potential and practical efficiency and profitability implications for the bank. Due to the minimum staff rationalisation, the lowly qualified staff remained at post as long as they could. The MD of another bank (MLYB) indicated that as late as in 1998, close to about 50% of the staff force was non-graduates (personal communication, September 6, 2010). Most of these individuals had school certificate, vocational and technical qualifications.

It was found that, no serious management and staff training and development programmes were implemented between 1995 and 2000. No special training was reported in the bank except in-service training to update the knowledge of staff during the period in question. A situation of insufficient number of skilled staff arose, particularly in branch management. This potentially and practically subjected small number of skilled employees to over-time work, which might subsequently contributed to poor credit management and bad banking practices. The situation according to the interviewee changed in 1998, where more skilled staffs were re-trained at the Banking College, but, this was when the bank was in so much distress.
6.3.3 Change in Remuneration and Evaluation of Management and Staff

In spite of the increase in competition between 1995 and 2000, COOP did not experience changes in compensation and management evaluation issues. It was noted from the interview that, the staff remuneration in 2000 was consistent with what pertained in 1995. DJKA revealed that, the continuous classification of public sector institution after its corporatisation informed the type of remuneration put in place. The sector ministry continue to determine compensation schemes based on the public salary and remuneration scheme for the bank.

Managers were remunerated according to the nationwide annual salary scheme for the SOEs, which separate the whole package of salary into annual salary and allowances consistent with the position being occupied. This system put great value on seniority but little on the abilities required by the job. A bonus system was put in place as part of the management restructuring package, but, was issued generally as a routine, without serious discrimination among posts at the same level. Workers were also given end of year bonuses based on pre-set corporate target though it was meant to be based on corporate performance and or as long as the bank's financial situation allowed. In reality, it was a free remuneration to all staff based on a percentage of annual salaries, irrespective of individual performance or the financial position of the bank. This might have been done to retain key staff; there was constant threat of staff poaching from other financial firms.

When asked, why pay for poor performance, the DJKA said that, the bank was reacting to what other banks were paying, as failure will cause skilled staff to be poached by other banks. There was no report of executive management performance evaluation between 1995 and 2000. In the case of other managers reports were kept as secret from everyone except the affected individuals. There was no record of poor performing managers or staff being disciplined or punished; hence no one had been removed from post due to poor performance before and after the reforms.

6.3.4 Internal control mechanisms after the bank Corporatisation and Restructuring.

The continuous ownership concentration in COOP after its reform, lack of board autonomy, inadequate restructuring, and weaknesses in the internal controls appear to have contributed to poor corporate governance in COOP, which may in turn have contributed to the bank’s collapse. Some practices which may have been a result of corporate governance weakness between 1995 and 2000 are discussed below.
6.3.5 Poor Risk Management Procedures

The lack of change in risk management continues to affect the bank after its capitalisation by the local institutions. It is argued that, the post reform losses are due to the continuous poor perception of risk by management over the period. The interviewee thinks the failures cannot be attributed to the lack of policies, as long policy document were put in place during the bank's pre-privatization restructuring. However these existing policies and procedures were not observed. As a result, the board failed to impose constraints on top management regarding related party transactions, frauds and patronage loans made to politicians within the five year period.

In spite of the reconstitution of the credit committee with non-executive directors, DJKA concedes that, the executive and the senior managers were responsible for the administration of loans, except the protocol ones. It was found that, the board committee on credit was dysfunctional and the executive continued to rely heavily on the senior managers to deal with non-protocol loans. The interview also confirmed that executive threshold levels were exceeded in most cases, but were regularised in board meetings after the loans were long given out. Thus, top management was unable to appreciate and control a business and to ensure compliance with laid down procedures caused the bank losses through unrecovered loans. These failures according to the respondent can be traced to the lack of policies, and if policies existed at all, they were inadequate and were not observed. In some cases the borrowers could not be traced due to loss of files, lack of security and inability to trace the debtors. He also indicate that insufficient number of staff, particularly skilled credit management staff, has had contributed significantly to the failure of their bank before the reforms. Most credit department staff he said was having accounting background. An accountant may not necessarily have the requisite credit management skills to assess and recover loans.

DJKA further indicates that the MD had ultimate control of most bank decisions on special loans, while the rest were handle at branch level by the credit officers. The irregular committee meetings were often called to brief the board members after these transactions had long been completed. As a result loans were inefficiently managed and most of those who borrowed from the bank never repaid them. Without collateral, the bank was left dangerously exposed to few customers’ especial public enterprises (Zorklui, 2001). Individual debtors were also noted to be of poor quality and were high risk customers. This would have required strong loan appraisal and monitoring systems, which were lacking. The bank was made to lend to state manufacturing industries and non-performing private sector industries. Some of the projects financed by bank were closed down because foreign exchange to purchase inputs was unavailable. The credit procedures such as the documentation of
loans and loan securities were inadequate. Several loans were extended to clients by the bank without proper credit procedures being followed or documentation originated. According to a supervisor with the BoG (MPEC), there was little evidence to suggest that a credit committee separate was from the CEO existed to process loan applications. Most of the loans were authorized by the MD without recourse to the board. When the bank was in distress, some documents could not be traced or was non-existent. When the bank was liquidated, recovery of loans became a very difficult task for the bank since tracing becomes difficult and impossible.

When a bank examiner (MRAB) interviewed, he conceded that examinations (on-site and off-site) by the Banking Supervision Division of BoG (BSD) between 1994 and 2000 revealed ‘serious insider trading, extremely poor-lending practices, and very weak credit administration and risk management system’ problems were also discovered at the bank. He was unable to tell why the BoG failed to take action until its liquidation in 2000. MRAB claimed to have been assigned to the bank along with other three relationship managers to keep eyes on the bank barely two months prior to its liquidation.

6.3.6 Poor credit Administration

The lack of real change in the quality of staff engaged between 1995 and 2000 also affected granting and recovery of loans in the bank. Though the respondent agreed that the credit department had engaged some accounting staff as part of the reforms between 1996 and 1998, this did not reflect on their performance. DJKA argues that, “Qualification in accounting does not translate into good credit decision making”. The continued lack of skills after restructuring lead to a situation where there is no credit evaluation - where top management only enforce and supervise the credit manual, which is not updated to reflect varying periods.

Specifically, the bank did not have adequate expertise to screen and monitor their borrowers to distinguish between good and bad risks as people of accounting background were considered for credit management units of the bank. Several loans were extended to clients by the bank without proper credit procedures being followed or documentation originated. There was little evidence to suggest that a credit committee was separate from the executive committee in processing loan applications between 1995 and 2000. Loans authorised by the MD without recourse to credit team were not followed or not recovered, since the credit officers deemed those as high level transaction.
Another issue on which no change is found was adequacy of skilled staff and whether it addresses the bank’s needs. The lack of competent individuals in the bank could have devastating repercussion on its control and management (Nam, 2006). Furthermore insufficient number of staff, particularly in branch and credit management, was also reported to have contributed to ‘over-dependency’ on few employees. DJKA recalled situations where credit staff was made to worked over-time, resulting in the delayed loan administration and recovery. These were the long serving workers, with no or minimum paradigm shift and doing things same since the inception of the sector reform. To maintain a high productivity, an organization needs adequate staff complement and appreciate their interests (Spollen, 1997).

6.3.7 Fraud and Related Lending

Before 1995, corruption and fraud contributed to the scale of the banks’ losses when politically connected borrowers accessed unsecured loans which were not granted them at arm’s length a (Zorklui, 2001). The study finds no change to related lending and fraud perpetuation in the bank after its corporatisation. “Though it was difficult to prove in practical terms, bankers were accused of misconduct and corruption, as money exchanges hands before a loan was granted” DJKA confirmed. DJKA also suggests that, the absence of a cap on bank credits limits, the amount and the type of borrowers lent money to have been blurred without any established guideline. Even, the bank’s own policy measures that could have minimised risks taken by official were flouted with impunity for super profit reasons. For instance, when the interest rates were liberalised, the bank set its own preferred interest rates on deposits and credits, it caused the management to accept fantastic mark-up or interest rates proposal from questionable individuals and companies.

Political collusion with the executive led to the continued expropriation of depositors fund between 1995 and 2000. These transactions involved some executive directors and un-named board member, which undermined the performance of the bank. Based on the BSD’s findings, the central bank concluded that the bank’s depositors were seriously prejudiced as a result of the former directors’ dealings. However no recommendations were made to interdict the executives in order to facilitate further investigations and prosecuted in line with the law before 2000. COOP was one of the three banks to be duped by a single obligor (A-Life Company). This single customer owed COOP an amount of GH 43 billion and substantial portion had to be recovered without the central bank knowledge (Deloitte and Touche, 1996). Bank of Ghana sources confirmed that COOP’s loss granted the single

119 During the military regimes of 1980s, loan applicants obtained notes from military officers and took these to bank managers: If the manager did not comply he risked being sacked over the radio (Brownbridge and Gockel, 1996).
affected its operations negatively and placed it in a difficult position to recover. The executives involved in the deal were given luxury cars for their services by the A-Life management. There were also reported cases of board members receiving cash hand outs from the MD indirectly indicating that they may have been aware of the transactions. He however could not substantiate what benefit was derived by the supervision official from the BoG, who was believed to have been aware of the transactions but failed to act. Though no regulatory supervision could not replace a good corporate governance practice (Nam, 2004), an efficient supervision could have prevented widespread fraud and anti-bank practices observed in COOP.

Another source of fraud was identified as the over-reliance on few members of staff which perpetuated all forms of malfeasance. According DJKA, most of the fraud cases were carried out by these few powerful staff in the credit section most of which had been with the organization for long periods of time and whose work were scarcely supervised. It was also noted that excessive authority was given to some employees because they seems to be very effective on their schedule. As such individuals in this category were zealous, devoted to duty and work extra hours under the guise of corporate loyalty and commitment. However, their zeal was directed mostly to their own selfish ends and that of their collaborators at the expense of the bank. The actions of these unsupervised credit staff was indirectly a collaboration efforts between them and the senior managers. A situation that could have been reversed had the credit committee been effective in its work. Most of the credit staff has accounting background, which did not translate into a good credit staff. As much as accounting was necessary for financial duties, the absence of a qualified individual for credit management and administration was also a factor in granting credits to credit worthy customers. The losses also include the protocol loans extended to some elites or special individuals that were given letters from political figures. Those with protocol loans did not have their credit applications checked by the credit team of the bank, because the introductory letters pre-qualified them for the loan. Hence Irrespective of the extent of the risk involved, good credit management can reduce the default.

Incomplete financial information data on internal borrowers also made their early detection by the BSD very difficult. An MD of another bank (MLYB) confirmed that inadequate debtor information made it impossible for these ghost or non-existing clients to be followed up. The implication of this is that such loans could not be traced to the bank officials involved; hence the BoG could not take prompt action. However, the BoG source indicates that one year could be very long for all sorts of practices to send the bank into crisis. Some of these practices in the bank went undetected, as the...
central bank was not so resourced to keep constant eyes on the bank he argued. Unlike in the post privatisation era there were no supervisor or relationship managers attached permanently to the banks. The various reports and on-site investigations prepared a group of bank supervisors shows COOP had suffered significant financial prejudice as a result of the conduct of the executive directors particularly regarding insider loans. Significant loans are alleged to have been extended to fictitious or non-existing companies, often without adequate security and in most cases without going through the loan committees or any documentation having been prepared. According to MPEC (Relationship Manager), the Single obligor limit spelt in banking law was exceeded without the authority of the board and BoG. It was noted also that the MD guaranteed in the name of the bank in breach of banking law (without the knowledge of the board).

6.3.8 Accounts of COOP’s Liquidity Crisis and Failures

Bank’s poor situation was allowed to continue in spite of the pre-privatisation financial cleaning implemented prior to 1995\(^{120}\). The bank’s operations were fraud with bad result right from the beginning of the reform in 1991. By the end of December 1999, it was established that the bank’s assets as well as high loan exposure to few companies deteriorated significantly. Internal and external audits carried out at COOP re-confirmed the internal control problems discussed above. COOP failed to meet or improve on the relevant financial ratios prior to its demise in 2000. Though the external audit reports since the establishment of the bank showed worrying situation, nothing could be done to save the collapse of the bank. Persistent losses and unsustainable operations of the banks could not be left to run on if the firm should be operating as a going concern (Table 6.1).

COOP incurred persistent losses because of bad loans made liabilities to be more than assets since the reforms in 1994 after the restructuring exercise. Liquidators in their note indicted that management of COOP for their ineffective credit management. For example, bank’s audited accounts during the period confirmed that its credit operations were mis-managed and securities were not attached to loans.\(^{121}\) The liquidator re-confirmed that COOP had huge loans with bad quality with about GHC 43 billion to a single borrower. Having corporatised the bank, one will have expected that poorly performing organisation should have filed for administration within three months in line with the country’s bankruptcy laws.

\(^{120}\) COOP was insolvent and the magnitude of its Non-Performing Assets (NPAs) was too large for it to be able to restore adequate level of capitalisation from future profits. The declining deposit growth because of loss of confidence due the corruption and fraud led to a loss of depositor confidence in Co-op evidenced by the steady reduction in deposits.

\(^{121}\) COOP was defrauded by A-Life Company, thereby affecting its operations negatively (Deloitte and Touche, 1996).
Table 6.1 Financial position of COOP prior to Liquidation

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>The financial statements have been prepared on a going concern basis. This basis may not be appropriate because the bank incurred a loss of GH 27,901,681,000 during the year ended December 31, 1996 and at that date its current liabilities exceeded its current assets by GH 20,437,795,000. An amount of GH 43 billion was owed by a single customer and substantial portion has to be recovered. These factors indicate that the Bank may be unable to continue trading.</td>
</tr>
<tr>
<td>1997</td>
<td>The financial statements have been prepared on a going concern basis. This basis may not be appropriate because the bank incurred a loss of ø 3,753,097,000 during the year ended December 31, 1997 and at that date its current liabilities exceeded its current liabilities by GH 24,208,941,000. The total asset of the Bank has reduced from GH 71,695,727,000 to GH 6,872,064,000. Account with Bank of Ghana was overdrawn by GH 23,598,815,000. These factors indicate that the Bank may be unable to continue trading.</td>
</tr>
<tr>
<td>1998</td>
<td>The financial statements have been prepared on a going concern basis. This basis may not be appropriate because the bank incurred a loss of GH 5,722,804,000 during the year ended December 31, 1998 and at that date its current liabilities exceeded its current liabilities by GH 6,092,147,000. Should the Bank be unable to continue trading, adjustments would have to be made to reduce the value of the assets to the recoverable amount to provide for any further liabilities which might arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities.</td>
</tr>
</tbody>
</table>

Despite these poor results (Table 6-1) and serious allegations, the bank was allowed to run for eight years after its restructuring. “There was no serious follow up from the BSD of bank of Ghana as expected for a bank that poses risk to the banking sector”, DJKA recaps. There was no reports of directors ever been charged with any offence regarding their alleged conduct at the bank. The decision by the central bank to liquidate COOP (and BHC) was taken because of the public outcry, considering the fact that some of the other state banks had recovered from liquidity problems and improved their capital adequacy values\(^\text{122}\).

MRAB, an examiner of banks opines that dramatic liquidation of a bank could result in depositor run; it is likely the forbearance contributes to the collapse of COOP by permitting the bank in such distressed to continue its operation between 1996 and 2000. It appears to have been disadvantageous to the bank, because the bank lacked adequate funds and remained in operation whilst its capital situation deteriorated. Coop's earnings of C2, 153 billion in 1994, C 0.191 billion in 1995, - C 27,913 billion in 1996, -03,735 billion in 1997 and -05,723 billion in 1998 showed a declining trend (see Table 6-1). This shows that it enjoyed forbearance for some years prior to the liquidation in 2000. Empirical data also revealed that Co-op incurred persistent losses and was unable to meet the required capital adequacy ratio of 6%. Throughout the time period under consideration, the external auditors pointed out this weakness, but it seems the central bank ignored the warning. The failure to sustain earnings and meet capital adequacy ratio suggests that the bank had failed \textit{ab initio}. Nonetheless, the bank traded until 2000. Due to persistent liquidity problems at the bank, the BoG with the support from government allowed it to be liquidated in line with the Banking Act in 2000.

The 1989 banking regulations limit single borrower exposure to 25% of bank capital for secured credit and to 10% for unsecured credit. While exposure to the largest 50 loans is reported to the central bank, there was no exposure limit on total credit that any single borrowers can obtain. MRAB thought lacks of clear definition of large borrower, and failure to set a cap on credit to the potential borrower was the problem. The bank did not introduce guidelines for measuring market risk, and set capital requirements for such risk in line with

\(^{\text{122}}\) Co-op failed to meet the capital adequacy requirement of 6% as stipulated in Ghana's Banking Law of 1989, section 8. For the period under review, Co-op's capital adequacy ratios were -22% in 1994, -37% in 1995, -109% in 1996, 406% in 1997 and -154% in 1999.
Basle guidelines. As a result Maturity gap analysis was not monitored. In general, COOP did not have adequate risk management systems in place before and after 1995. Introduction of guidelines for measuring and managing interest rate risk, and set limits on duration gap could have limit the exposure of the bank experienced after its corporatisation.

When his attention was drawn to the fact that the banks was allowed to trade in distress state, MRAB argued it will be unwise to close down the bank after huge turnaround investment. He further indicates that closure of COOP before 2000 will have caused a major loss to the tax payer. MRAB said an intermediary (in some cases, its assets alone) could yield lower than its real intrinsic value. Some assets of a bank could have a higher value even in its distressed status than when the assets are placed under different management or under regulators. It was also suggested that the ratio of liquidation expenditure to the assets of a liquidated bank is high, if undertaken immediately after injecting so much into recapitalization and restructuring. MRAB justified his augments by indicating that other distressed banks prior to the reform traded out of trouble and are now the finest banks competing well with their foreign counterparts.

Supervision of the banks was done in tandem with other restructured banks, with no specific attention to COOP. MRAB argued that, COOP was allowed to operate ten years after the restructuring to trade out of crisis, because, other banks were not doing too badly. He related the problem to the collusion between some supervisors and some managers. The involvement of both bank supervisors became apparent, as these transactions had taken place at both Accra and Kumasi branches of the bank over a given period of time. It was also understood from the interview that, regulator (BoG) decided to ignore the depth of the crisis and continue to examine the bank annually as per the law. On his part, a former head of BSD admitted that, the rogue director of A-Life was dealing with three state banks at the same time and the BoG could have intervened swiftly. However, MRAB defends the BSD that, if the politicians and or shareholder borrowed money, it is not unlawful. Provided, it did not go beyond the threshold level of the total loans the BoG cannot be faulted. MRAB however, thinks the lack of cap on the largest individual borrower caused huge losses to the bank this way. “I cannot say the individual supervisors concerned did the right thing, but, only exploited the loop hole in the regulatory frame work, they had submitted the yearly reports required by law, yet a lot of things can go wrong within months.” MRAB concluded.
Though DJKA did not think the credit committee was involved in granting the A-Life loans, he regretted the behaviour of the unscrupulous senior managers have not been detected earlier by the numerous visits by central bank supervisors, resulting in loss of huge sums of money to the public. In the defence of the post-reform board, he argued that, the scandal took place at the time of the divestiture, when the state floated 50 per cent of its shares. Whilst board and management committee were in transition (about changing to include new independent directors), and with the help some former directors and mangers, the scandal was perpetuated. DJKA further argued that personalities involved in the scandal facilitated its success, as the watchers and the players were involved. It was difficult to detect until the flamboyant lifestyles of the culprit directors were picked by the media. Their acts took the form of embezzlement, misappropriation of funds, aiding and abetting, making false entries in books or statements making false statements in credit applications, money laundering and other fraudulent practices. The cartels targeted big branches in Accra, Kumasi and Takoradi, where more than 50 per cent of customer deposits were lodged with the bank.

Without exception, losses reflect the board and top management’s failure to oversee and control operational properly. This study showed that, government agents had the incentive to overlook economic damage cause the bank. It showed an incentive for politicians and their officials to overlook regulatory infringements, especially those that are costly or politically controversial. Thus, state ownership is associated with disincentives to regulate effectively. This is consistent with others who suggest that politicians regulate for short-term political gain, leading to a reduction in the economic benefits and increase long-term economic costs to the tax payer (Martin and Parker, 1997; Leuz et al., 2009).

6.4 The Case of Ghana Commercial Bank (GCB)

The shift in ownership and control to private individuals and institutions during privatisation changes the organization’s prevailing incentive structure, with greater emphasis placed on profits and efficiency (Boycko et al., 1996). However, in a state-private partnership minority shareholders risk expropriation (Berger et al, 2003), as government is likely to interfere in its operations. Unlike COOP, GCB was listed on the local stock market as part of the privatisation process and had equity ownership of close to 51%. It presupposes that, in spite of state residual ownership, conforming to listing and SEC regulations could be an added incentive for the bank to be run properly. This case allowed for comparison of listed and partially divested SOB with others that were only corporatised, restructured and less divested.
6.4.1 Background of GCB

The bank was set up following the recommendation made by the Trevor Report, an enquiry commissioned by the government into banking in the then Gold Coast. The enquiry had been prompted by local criticisms of the operational practices of the expatriate banks and the workings of the sterling exchange system. The main objective of the bank’s establishment was to improve the access to credit of indigenous businesses and farmers. The Government is a majority shareholder in the bank and maintains minority shares in the existing foreign owned banks. The bank provided intermediary services such as keeping cash deposits and giving short-term advances for commerce and other businesses requiring short-term credit. They also deal in securities and other bills of exchange. About 49% of the deposit liabilities of the bank are in the form of demand deposits and the greater part of them are private sector deposits.

GCB started in 1953 as the Bank of the British colonial Gold Coast to provide banking services to the emerging nation for socio-economic development. It was also instructed to extend a branch network into rural areas, so that people in the rural areas would have access to banking facilities, and was heavily involved in lending to agriculture. Since then GCB branches have been opened across the length and breadth of the nation tapping the potential of the 10 regions that make Ghana. GCB became the largest bank in Ghana: it had 36% of total bank deposits in the late 1980s and currently it is still the largest Bank in terms of assets and deposits with a market share of deposits of 19%. The numbers of branches of other prominent banks mostly foreign banks were limited to about four cities as opposed to the numerous branches of the GCB which operated in major districts (at least three branches in each of the ten regions of the country) between 1995 and 2000.

6.4.2 Change in Ownership Structure

The privatization measure was strategically adopted by government in order to retain the controlling majority shares in 1997. Prior to its divestment, ownership of GCB was tightly restricted and limited to government. The restrictions were relaxed under the 1989 regulatory reforms to allow for private ownership of up to 100%. Though, the revised law did not limit the ownership, BoG, approval was needed for ownership above 10% for the

123 Under the banking law (based on the repealed 1989 law), a person is allowed to hold any amount of shares in a commercial bank.
sake of extra due diligence (including credit check) on the potential owner. It was incorporated as a public limited liability company on the 7th September, 1994. The initial 30% direct sale of shares to the public was done through initial public offering (IPO) on the Ghana Stock Exchange (GSE) for private participation ownership in 1996. Government further sold close to 47% of shares between 1997 and 2000, but it is important to observe, that, its dominant shareholder status was never removed. The bank’s shareholding structure is presented in Table 6-2 as at the end of 2000.

Table 6-2 Shareholding in GCB as at the end of December, 2000

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name of shareholder</th>
<th>Amount of shares (%)</th>
<th>Ownership Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SSNIT</td>
<td>29.8</td>
<td>Public Institution</td>
</tr>
<tr>
<td>3</td>
<td>Government of Ghana</td>
<td>21.36</td>
<td>State Fund</td>
</tr>
<tr>
<td>2</td>
<td>Other state organisations</td>
<td>1.67</td>
<td>Public Institutions</td>
</tr>
<tr>
<td>3</td>
<td>About 30 financial institutions</td>
<td>41.48</td>
<td>Private Institutions</td>
</tr>
<tr>
<td>7</td>
<td>Over 2,000 small Shareholders</td>
<td>5.69</td>
<td>Private individuals</td>
</tr>
</tbody>
</table>

Source: Compiled from survey and bank registration document in Bank of Ghana

The Change in ownership may create the impression that the company is now more as 50 per cent of its shares are owned by a large number of investors, but the remaining shares remain in the hands of the government and a public institution. With more than 52 per cent of the shares in the hands of the state and its agents, the government potentially appoints directors and top managers of the banks. Thus, the continuous large share ownership of GCB can increase the chances of expropriation of large number of individuals and institutional shareholders. For example, apart from SCBN/Northern’s shares of 6.68%, shares of local institutional averaged below one per cent between 1996 and 2000. This made GCB into a bank with widely-held shareholders but susceptible to the major shareholder (government). Though it was found that minority shareholders formed coalition to have themselves represented on the board, expropriation by the government owner was likely. Minority shareholders were potentially faced with monitoring problems because they may not have the resources and expertise to monitor their investments.

The information in shareholdings was obtained from the Banking Supervision Department of the Bank of Ghana.

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124The information in shareholdings was obtained from the Banking Supervision Department of the Bank of Ghana.
The pre-FINSAP III bureaucratic running of the bank’s business was reversed between 1996 and 2000 when most of the representatives of SSNIT were replaced by professional directors appointed by the new owners. The additional independent director representing the public, the other shareholders counteracted the government’s cash flow advantages by the more voting rights. Thus the controlling right of the majority holder had been mitigated by the regulatory environment. This arrangement may curtail minimise the diverting and grabbing activity of the controlling agents. However, where government hold small shares in a privatised bank, it can intervene in its operations and change strategic direction of the bank (Bonin, 2003)

The director interviewed (MSDN) confirmed that ownership and management truly separated in GCB after 1996. He also welcomes the intention of government to offload the remaining shares in the bank, but questions the government commitment to do so, with less than 50% divested by government since the inception of the reform. MSDN argued that, private acquisition of shares made it difficult for the agents of government to control the board, as other shareholders are equally represented by independent directors. The board became very active and served as a place of serious business discussion and was boosted by the appointees of the new owners. For example, listed firms were made to appoint member of the public on to the board to represent the public. In so doing the government precluded from fully empanelling the board with politicians and or bureaucrats. The increased in non-political appointees on the board after 1996 reduced drastically consistent with the survey data in section 5.3. The predominant concentrated ownership of the GCB may have its demerits, but this has been counteracted by the possible vigilance of the professional managers representing the minority shareholders and the public.

Unlike the COOP discussed earlier, there was no evidence that wrong people were appointed to the board solely for political reasons, but it is known that the government takes advantage of its majority shareholding to use the bank to finance Tema Oil Refinery (TOR) businesses that nearly collapse the bank in the 2000. Similarly, there was ownership-linked scandal in 1997 at bank involving A-Life supermarket owner who had over 4% shares in GCB. This was an example of controllers of the state banks colluding to expropriate minority and depositors’ fund.125

125 Though government has in this case provided a scheme that salvaged the depositors’ fund, this was done at the expense of the tax payer
6.4.3 Change in Board of Directors Features

GCB undertook further restructuring to revamp boards of directors and executives, and turnaround plans formulated for the bank between 1996 and 1998. Board of director and top management restructuring could be triggered by virtue of the presence of new owners (Lopez-de-Silanes, 1997). With a superior voting right, the new owners were reported to have virtually changed the non-executives and executives to much more qualified professional managers. Unlike pre-1995 era, more independent directors were appointed, even government appointees were said to have been professionals in business and management. The new owners therefore had more power to fire and appoint new directors.

Confirming the survey reports, MSDN suggests extensive structural changes to the various board features after 1996 was done by the new owners of the bank. As a result, new professionally qualified appointments were made in consistent with the new policies and regulatory requirement enforced by the central bank and SEC/GSE respectively. He opines that virtually all aspect of the board (size, sub-committees, proportion of non-executive directors and qualifications) had changed. Three Board Committees are relied on for recommendations aiming at preparing the decisions to be made by the Board of Directors. Terms of reference was set for the Committees, explaining their role and authorities delegated to them by the Board. Information on the committees is made available about their membership, the number of their meetings and attendance during the year as well as their main activities. The board includes executive, audit and compliance, credit and human resource and remuneration (Table 6-3).

\[\text{It was noted during the pilot studies that, due to the length of that and memory lapses, directors were unable to remember exactly the number of the various components of the board. Since respondents may not remember the exact size and composition of the board before FINSAP, respondents were made to indicate their opinion (relative) on the number and composition of the board over the study period. Respondents were asked to indicate if there have been changes to board size, Number NEDs, committees, board activity, and member qualifications.}\]
Table 6-3: Board Committees of GCB as at December, 2000.

<table>
<thead>
<tr>
<th>Board committees</th>
<th>Non-executives</th>
<th>Executives</th>
<th>Senior Managers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive committee</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Audit and Compliant</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Credit Committee</td>
<td>0</td>
<td>NA</td>
<td>1</td>
<td>NA</td>
</tr>
<tr>
<td>HR &amp; Remuneration</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Total (Average)</td>
<td>11.7</td>
<td>72.7</td>
<td>52.9</td>
<td>27.3</td>
</tr>
</tbody>
</table>

Source: GCB annual reports sources

Compared to 1995, the number of non-executive directors serving on the various committees increased sharply in 2000. This made most board committees in the table comprising predominantly of independent and non-executive directors at the end of 2000.

The need to compose the board with the right people is the preserve of the human resource and remuneration committee. Its work comprised the following: identify and recommend candidates to fill board vacancies; periodically assess the structure, size, composition and performance of the Board and make recommendations with regard to any changes; periodically assess the skills, knowledge and experience of individual directors and report on this to the Board; properly consider issues related to succession planning; and review the policy of the Board for the selection and appointment of senior management. Thus, the presence of new owners appears to have made changes in members of the board as well as changes of the executive and this might have enhanced effective monitoring and management. The removal of under-qualified managers may also give opportunity for the bank to appoint managers with objectives towards profit maximisation.

While board features above confirms survey data observed on Table 5-3 already, open-ended questions requested respondents to explain how the board features have changed over the two periods under study. The responses had been discussed under board composition and independence, objectives and functions, management features, compensation and evaluation. The effect of the changes on internal control system has also been captured.
6.4.3.1 Board Composition and Independence

Compared to the COOP, the non-executive directors used their directorships to signal to internal and external markets that they are decision experts. This was because, non-government appointees were all independent directors appointed by the bank. GCB became fairly independent of government agencies expected as far as management and staff appointment process are concerned. Unlike the non-divested banks privatisation the banks experienced minimum administrative interference from the sector ministry or the seat of government. According to MSDN, business related skills and abilities, rather than political or party membership became the main reason when choosing managers. Even though about 50% of board members were made of government appointees, members were fairly independent, well qualified and responsive to the multiple stakeholders (BoG and holding companies) instead of the shareholder alone.

The survey data show that, the board and management positions were totally devoid of the long serving school leavers or military rulers that characterise the pre-privatization era. After the 1996, GCB had developed a more robust banking organization with an experienced management team and a seemingly competent board. The introduction of non-executive directors to represent other shareholders and the public might been the most important factor in the quality of the selected individuals, since government appointee can be rejected on the scale of fit and proper person. The increased number of non-executive and independent directors might encourage increased board activities, as most of the independent directors were appointed by the new owners. Taken as a percentage, non-executive directors constituted 83.3% of the board. Investment Director (former board member) of SSNIT, less than half of the bank’s non-executive directors were handpicked or connected to the government. Although the chairman of board was appointed by government, there was no evidence to suggest that the Chairman and the MD were connected, as they were all professionally sought. The appointment of chairman and the MD by government may have compromised the board’s independence in its fiduciary duty of providing oversight to management, the sizeable number of non-executive directors representing the minority and the public could mitigate this effect. Thus, the large numbers of non-executive directors made it easy for the board to be composed with independent directors than the pre-privatisation era.
6.4.3.2 Board Qualifications, Knowledge and Expertise

The case study showed that the competence of the board increased between 1996 and 2000. This was due to quality of individuals, policy of engagement and training regimes introduced during the period. The respondent blamed the pre-1995 poor qualification on the appointment criteria at the time. This changed in 1996, when individuals with related and diversified qualifications were engaged consistent with the GSE listing requirements in addition to that of the central bank. “There were several situations in which government’s intended appointees to the board were rejected for failing fit and proper test, due to their shady or credibility problem. A situation which was possible after the bank was privatised”, MSDN confirmed.

As at 2000, the bank was endowed with rich diversity in qualification and experience on the board and gives an indication that competent directors of diverse backgrounds now serve on the board. The diversity of discipline enables the committees to be empanelled by the right people as possible. MSDN opines that competent and qualified individuals were engaged, because government wants to be seen as doing the right thing as far as good governance is concerned. MSDN argued that the bank was being positioned to attract strategic investors (to take the government’s share in the bank), hence, governance cannot be seen to compromise good running of the bank by competent people. Between 1997 and 2000, most board members had some banking, finance or management experience at a senior level. The politicians on the board unlike in pre-reform era were appointed based on their qualification and competence. Even, the Minister of Finance on the board was an economist by profession and at no time was discussions placed on any social or political discourse. Issues were discussed purely on business lines with no government intervention. There was no room for the long serving top management officials in the bank since the government allowed professional individuals to manage the affairs of the bank. It is not possible to see any one with qualification below degree level in top management position in the bank after 1997. These developments (qualified and profit oriented directors) can ensure efficient monitoring of management in the bank.

The changes also ensured that directors and managers with requisite qualification and skills were appointed, since banking firm knowledge is especially crucial with regards to resource distribution and understanding of proposed projects (e.g. loans), monitor and advice was high. It was noted from the survey data that individuals with relevant qualifications were
engaged between 1996 and 2000. For example, the board was made up of about 80% of directors who were accountants, management specialist, finance/bankers and economists and they should have better knowledge on how to manage the affairs of the bank.

The increased board competence might have been due to the presence of other board members form minority shareholders and the change in qualification requirement introduced by the central bank, in line with international best practice. It might also be due to the fact that the board has been listed on GSE as privatization method and improved managerial quality requirement required by the new owners. The good will of the government to appoint professionals to manage affairs of the bank in anticipation of off-loading the rest of equity to a potential foreign investor cannot be under-estimated.

6.4.3.3 Board objectives and Function

Established to meet the need of the masses, the bank was established in every district in Ghana irrespective of the branch viability. The bank before 1996 was used to support all sorts of projects such as agriculture, manufacturing without ascertaining the ability to recover the loans. Thus, continuous state ownership may perpetuate non-business or political decision making. However, board became more profit oriented, as it shifted from its political and sectoral lending to a more profit making mind-set. MSDN argued that poorly performing branches and staff were rationalised, to make them more efficient. This was also confirmed by the survey data that gave GCB the highest score in profit orientation among the SOBs.

Most of the functions of the board were dictated by the sector ministry (MOFEP) prior to the FINSAP. However this changed at the advent of the board restructuring and privatisation. The board also had autonomy in most lending and other business decisions after 1996. Apart from what experts called special strategic national decisions, loan applications were scrutinised and approved by the board and any interest re-scheduling and write-off of bad loans must also be approved by it. Unlike in COOP, where important credit decisions were made by the Managing Director or senior managers, the GCB credit committee was involved in administration of loans, with majority of members been non-executive directors between 1996 and 2000.
The board after 1996 adopted a set of guidelines specifying appointment of directors, top managers and loan administration, remuneration and risk issues. Thus, the board is fully entrusted with formulating all policies for the bank's operations with minimal political interference. Thus, it exercises objective and independent judgment in most of its roles, as most of the committees composed of non-executive directors. For example, the nomination committee (see Table 6-4), was responsible for appointing new and replacement directors. These appointments are made on merit and consistent with the banking rules. Even those appointed by the government are interviewed and accepted or rejected based on their qualification and backgrounds/character checks. The proportional appointing mechanism was adopted, with the government appointing close to half of the board members which depends on the equity structure of the bank. This appears to have minimized decisions based solely on political expediency observed before the bank was listed on the GSE for private participation.

It was found that other important business decision making were undertaken by the board with the help of the established sub-committees. MSDN opines that there had been increased board sub-committee formation in the bank for mandatory and voluntary (best practice) reasons. For example, he recaps that only audit and management committees were somewhat functional committees before 1996. The bank's annual reports (between 1997 - 2000) indicate the state banks had constituted several board committees. With this arrangement, the board appears to exercise objective and independent judgment in most of its functions after 1996. The Human resource and Remuneration Committee comprised of independent and non-executive directors (see Table 6-4). Its work involved the following: identify and recommend candidates to fill board vacancies; periodically assess the structure, size, composition and performance of the Board and make recommendations with regard to any changes; periodically assess the skills, knowledge and experience of individual directors and report on this to the Board; properly consider issues related to succession planning; and review the policy of the Board for the selection and appointment of senior management. MSDN observed that appointments were made on merit and consistent with the banking rules and listing requirements. Even government appointees were interviewed and accepted or rejected based on their qualification and backgrounds/character checks.
6.4.5 Organisational and Management changes

GCB differ from the COOP in bank re-organisation and management restructuring between 1995 and 2000. The new board had set in motion reform measures to deepen the pre-privatisation measures. The changes to the management features and compensation issues also followed the board level trend in the changes observed. Unlike COOP, genuine organisational and managerial changes took place after the partial privatisation of the bank. This observation is consistent with the survey data in section 5.7.2). For example, management restructured branch and staff between 1997 and 1999 through rationalisation and reduction in staff and poorly performing branches throughout the country. According to MSDN, there was branch and staff ‘pruning’ to make bank more efficient and profitable. Before FINSAP the bank was saddled with high number of staff and poorly performing branches. The new management made moves engaged the right skills, allocate resources more efficiently and rationalise the poorly performing branches to return the bank to profitability and efficiency (see section 4.5).

6.4.5.1 Executive and Senior Management changes

Consistent with the board level changes, real restructuring after 1996 to the selection and appointment of managers and key staff took place within the period. New policy guidelines gave the executive committee the authority to recruit staff below the executive director levels after 1996. Thus departmental, branch and other key staff levels were engaged by the MD and its executive committee. Changes also took place at the branch and departmental levels in the banks. Those units with overlapping functions were streamlined or removed.

In the absence of financial educational institutions in early 1990s, it was difficult to get qualified individuals with banking and credit management backgrounds. GCB at the time, try to organise in-service training for their staff with limited success. By and large, individuals with accounting backgrounds were considered for credit department. However, the post 1996 restructuring involved extensive training for both the retained staff and the newly appointed staff at the newly established banking college and other academic institutions.

MSDN observed that, retained and new managers were given all sorts of training to improve their productivity. If the old managers were allowed to be at post with their old paradigm shift in behaviours, it may pose danger to the bank. It seems that management and key staff in SOEs (such as GCB), may struggle to adjust their ways of thinking in accordance with new
management approach to performance. To cut costs, staffing levels were reduced by 38% between 1988 and 1992, and some bank branches of GCB and other state banks were closed. The retained and new managers benefited from refresher courses in the banking college (established in 1994) to update them with the current banking practices. Others trained in part-time courses with Ghana Institution of Management and Public Administration (GIMPA) and University of Ghana leading to bachelors and masters in management (MBA). According to MSDN, the various training programmes have had positive impact on the behaviour and conduct of management staff. As a result it has contributed to improving the quality and ability of the bank’s managers substantially.

6.4.5.2 Bank and key Staff Rationalisation

Issues of job-for-life or over manning were also dealt with by rationalising the number of branches and staff through branch closures and disengagement of staff. For example, the number of staff decreased from 3508 in 1997 to 2023 in 2000. These employees were laid off by new the new board to reduce waste and efficiency. Compared to the job-for-life principle of the pre-privatisation era, only qualified individuals were retained and given further training. Not only did the functional structures become slimmer, but the number of employees in the department was cut back. Those who were close to retirement and the long serving individuals were given the option to retire before their official retiring age transferred younger staff to other branches and or posts within the bank. However, majority of rusticated staff found jobs in the ever increasing banking institutions. This reduction in staff allowed the bank to drastically remove unqualified and incompetent staff at all levels of the banks, with gradual introduction of qualified and new bloods into the bank.

In addition, training regimes were put in place for new directors to sharpen their focus towards the job at hand after 1997. Unlike COOP discussed above, GCB involved its branch managers and others in regular training in special areas of their core business. This MSDN argued contributed to renewal and update in knowledge and skills of other senior bank officials. It is evidenced that board members regularly benefit from training programs provided by, National Banking College (NBC), GIMPA and other universities across the country.

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127 See section 4.4.3 to 4.4.5
128 The establishment of National banking college after sector restructuring to specifically deal with banking issues was mentioned as crucial to manpower capacity building.
6.4.5.3 Compensation and Management performance evaluation

Consistent with the survey data in section 5.5, the sector privatisation was found to have influenced the compensation and evaluation schemes implemented between 1995 and 2000. Unlike COOP, GCB use of performance based incentive compensation instituted by the Human Resource and Remuneration committee. The interview shows that the bonus system and incentive compensation schemes for managers and skilled staff increased during the period. The schemes were based on the performance of bank, so awareness of the top management about how their decisions affect profitability was enhanced.

It appears from the study that, performance based scheme aside the improved salary scheme had been introduced to motivate the management and staff. The bank appears to be the only SOB case study that registered changes in compensation and management evaluation schemes between 1995 and 2000. Unlike the pre-privatization era, board of directors and not the sector ministry is responsible for remuneration and management evaluation. After 1996, the Human resource and Remuneration Committee made proposals for the approval of the board on the remuneration policy for executive directors, ensuring that they are consistent with the remuneration policy adopted by the company and make proposals on suitable forms of contract for executive directors. It also assisted the Board in overseeing the process of compliance with existing legal requirements regarding disclosure of remuneration-related items. With respect to senior management, the Committee made general recommendations to executive directors on the level and structure of remuneration for senior management, as well as monitors the level and structure of remuneration for senior management, on the basis of adequate information provided by executive directors.

Confirming the survey data, MSDN demonstrates that the annual salary scheme remained the most important pecuniary benefit to officials of the bank. It was observed that the salary system has increased over the period and other bonuses introduced consistent with what competition is offering. In addition to the pay structure laid down in the management contract (salary), other levels of such bonuses for the director are set up by the board Committee. The bank had implemented the bonus systems; the level of pay-outs was determined by their performance, evaluated mainly by the board. Executive directors had bonuses set by the committee, equivalent to a given % of the bank performance. For example, credit team were remunerated based on their loan recovery, while, the sale staff is based on amount of money that is lodged by investors. However the bank relationship
manager in the central bank also observed the committee made recommendations based mainly on the industry indications. “Failure to meet industry position will eventually lead to high labour turnover” he emphasized. MSDN indicated that, board members act in line with their fiduciary duties, as they were no more insulated from dismissal for poor performance or inappropriate behaviour.

Ability of the board and top management to evaluate management and branch performance had been enhanced partly due to the increased board member quality of the restructured board. Technically, the MD and top executives in GCB were to be evaluated once a year by the board, the interviews suggested that this kind of evaluation seem to have no effect on top managers of GCB. One expects a listed bank to behave like the other firms that reward according to the evaluation report. However, the extent of performance scrutiny differed hieratically. According MSDN, the board mainly assesses the MD according to the bank’s performance in terms of profitability and allegiance to the board members. For all other executives an annual confidential report (ACR) is prepared by supervisors on the respective executive’s performance and this is submitted to the Human Resource Department (HRD). Specifically, the performance of the executive other senior managers and branch management staff seems to be better evaluated because there was clear targets for profitability and efficiency of the bank; in addition, managerial shareholding was implemented in the bank, which was reported by ACR report. Physical check with the HRD shows no evidence that the MD and other executive committee members have performance evaluation scheme in the last five years. MSDN however, indicates they have their expectations spelt out in their contract, yet no top executive had been reprimanded for poor performance since its privatisation. It appears to have been difficult to evaluate objectively the performance of the top management and therefore to create a direct link between individual performance and remuneration.

The established policy and practice of annual assessment of executives is encouraging in terms of good governance but in reality, follow-up actions were rarely taken after the evaluation of the managerial staff. MSNM and MSMD both agreed that appropriate positive and/or punitive actions are very rare in the bank, and confirmed that political interference, from both politicians and MOFEP, was the primary reason for such strange dynamics in GCB. Jobs of departmental and branch level management were more linked with performance consistent with foreign banks discussed in chapter 7 below. Performance linked
remuneration could motivate management and operational staff to put in their efforts in both sales and loan recoveries. It was also noted that, remuneration at management level is consistent with the market as new financial institutions always up their pay structure to attract experienced staff from competition. For example, the Managing Director of GCB was poached Barclays Bank, a global bank. It presupposes that, GCB has moved away from dependency on government ministry to motivate its executives and look to the labour market to motivate and maintain her human capital. Officially and practically all promotions were linked with the remarks in the ACR, except where an executive is recommended by board members punishment policies are also clearly stated and linked with other senior or branch management performance and behaviour.

6.4.6 Corporate governance, internal control and Risk Issues

The partial divestment of state equity in GCB, restructuring of board and management, and fairly good internal controls appear to have contributed to better corporate governance in GCB. In spite of the changes observed, it’s over exposure to a shareholder and strategic client had contributed to liquidity problems experienced in the bank before and after its privatization. The internal control and risk management issues are discussed in the sub-sections below.

6.4.6.1 Top Management Risk awareness and Credit Management

In line with the changes in BoD features, the restructuring affected internal control parameters and made them more robust after 1996 restructuring activities. The introduction of competent and independent individuals gave the board necessary awareness in risk awareness compared pre-reform era. Unlike in the past, Boards of directors often request presentations and performance reports that enable them to review the bank’s progress toward its goals in order to meet the multiple stakeholder goals. The audit and compliant committee and the executive often request presentations and performance reports that enable them to review the bank’s progress toward its goals in order to meet the multiple stakeholder goals. Functional reviews occur more frequently than top-level reviews and usually are more detailed. For instance, commercial lending was reviewed weekly and delinquencies, payments received, and interest income earned on each portfolio reviewed. While the credit committee reviewed similar reports on a monthly basis, the executive officers were mandated to have up to date status on all major transactions. All transactions involving directors, staff and relatives/friends were scrutinised by the credit committee.
irrespective of the amount involved before the central bank is notified. The MD and the executive committee were also not allowed to go beyond a corporate threshold level for any loan facility to be granted without the full board approval. These developments helped minimised abuse to staff credit system and losses from related lending.

6.4.6.2 Improved Audit system

The audit and compliance committee discusses in section 6.4.3 became responsible for internal control of the bank. It replaced the audit committee that was put in place as part of the pre-reform restricting in the early 1992. In order to ensure that adequate internal control is maintained, the committee focussed on maintenance of proper books of account and reliable financial information. Scheduled audits were increased at branch, regional and national levels.

Apart from planned audits, irregular and unannounced audits are conducted at branches across the bank by the divisional heads and sometimes finance committee. Having completed the audit, the teams send copies of their audit reports to the board at head office. After the analyses, the board gives the necessary instructions if irregularities have been detected. Branch managers were assigned to deal with serious irregularities and usually given two weeks to do so. The branches or the relevant department have to submit a form which certifies the irregularities corrected and also problems that were not corrected. These issues have deadlines to complete, hence, indirectly increase committee meeting times and reporting mechanisms. Accounting System includes series of tasks and records of an entity by which transactions are processed as a means of maintaining financial records. In most cases, such systems identify, assemble, analyse, calculate, classify, record, summarize and report transactions and other events. Management in most cases ensures that the systems maintain adequate records and documents.

6.4.6.3 Fraudulent and Corrupt practices

In spite of the improved internal control mechanism discussed between sections 5.3-5.9, controlling elites of the bank and individual owners colluded to rob the bank in the late 1990s. Apart from this ownership-linked scandal, the period of 1995 and 2000 witnessed somewhat reduced irregularities in top management of the bank. In spite of the increased risk perception by the bank, GCB and two other SOBs were involved inappropriate transaction “A-Life Scandal” discussed in the previous chapter. Consistent to COOP, the
scandal involved the use of a generous overdraft facility and cheque cashing privileges to over 75 billion Ghanaian Cedis\(^{129}\). When asked his opinion on the scandal; the interviewee asserts that, it was not a matter of qualification or political interference but pure greed on part of management and regulatory failure.

The relationship manager (MRAM) attached to the bank, confirmed that GCB had implemented sound internal control systems with checks and balances to avoid fraudulent transactions. Though he was not with the BoG during the A-Life scandal, MRAM was of the view that, the absence of regular off-site and on-site supervision could be partly being blamed on the fraud. The banking law at the time prescribed at least one visit per year. This resulted in irregular visits, and a lot could go wrong within a year without the knowledge of the central bank before 2004, he said. Though MRAB was not happy the court discontinued the A-Life case, the affected executives cannot no longer serve as managers of banks. MRAB also note that, the happening prompted the BoG to permanently attach examiners (s) to each bank to ensure *daily health check* to avoid recurrence of any irregularity or anti banking practices. By virtue of their permanent attachment to the banks, relationship managers have more knowledge of the individual banks and can determine any error that may occur before it reaches damaging proportion, MRAB concluded.

On the part of an executive director of the GSE interviewed, he quickly laid the issue at the door steps of the BoG. He said “We had issues with some banks, regarding their ownership and operation, but come into direct confrontation with BoG. When any laws conflicts with the banking laws, the later take precedence, hence GSE cannot be blamed for anything”. The director of Administration (DQQA) at the BoG agreed with the GSE position, but argued that, the law of the land placed the responsibilities of banks in the hands of the BoG. No other organisation can usurp such power, as BoG is accountable to the legislature. DQQA also opines that threats to de-list banks that flout GSE rules were not strong enough to deter them and expected the GSE and the SEC to be more assertive. This finding shows that SEC/GSE was hiding in the shadow of the BoG to carry out the regulatory and supervisory mandate with minimum action. It also presupposes that, the banking law prior to the 2004

\(^{129}\)The remarks by some of the supervisors of BSD in the Bank of Ghana collapse state banks and the distress of most of them revealed how the government and the regulators either decided to ignore the depth of the crisis or had no full understanding of its economic implications. These comments seem to highlight that the government was willing to support state banks despite the poor performance during the periods.
was in conflict with the GSE/SEC rules, creating a loophole for the controlling agents to indulge in illegality.

When he was interviewed, the former Head of banking supervision (MDSB), thought that it was possible because some major stakeholders rather constituted themselves into a syndicate that worked together to outwit the central bank as an institution. MDSB confirmed that the A-Life incident in GCB and other affected banks was fraud perpetrated by some insiders (bank directors) and outsiders to the bank (supervisors and an owner). MDSB argued persuasively that the activities of these important players could not be noticed at the time because of the personalities and their ability influences others. “The BoG’s inability to pay regular visit to the bank was not good enough and we depend on the reports of these same cartels he asserts”. MDSB however indicates that, the introduction of relationship managers to the banks and their rotation makes collusion and fraud perpetration quick to detect. The introduction of these supervisors after 2000 by the central bank put the banks under constant surveillance by the BoG. This might have informed the reduced issues of fraud and irregularities after FINSAP III in 2000.

6.4.6.4 Effect of Sectoral or Strategic Credit Facility

GCB suffered a serious liquidity crisis which crippled most of its operations due to politically motivated loan extension to Tema Oil Refinery (TOR). Though it was observed in section 6.3 that the government influenced on loan administration has dwindled, the state’s single decision to use GCB’s balance sheet to support TOR (a public institution) pushed the bank into distress to the extent of imminent collapse after 2000. At various times in the past, governments tried to take over responsibility for the debt and its servicing. For example large portion of TOR’s short-term debt was restructured into medium-term government bonds between 2001 and 2002; TOR exposure still exceeded seventy-five percent of the bank’s equity capital in June 2003 (IMF Staff Country Report no. 396/03). TOR’s debt to the banking sector has been as high as 2% of GDP in 2001, but it has been reduced to about 0.4% of GDP in 2010, and should fall further with the deregulation of petroleum product prices.

The distress may have served to highlight corporate governance supervisory lapses. MSDN however disagree that the liquidity crisis was the result of poor governance or fraudulent expenditure, but un-avoidable national security decision. MSDN did not think unsound management practices were the major cause of GCB’s liquidity problem between 1996 and
2000. Supervisory reports on the bank by BSD seem to corroborate the BoG position. The report highlighted good internal control systems and the bank’s ability to adhere to set or prescribed regulatory procedures. MSDN argued good governance as the possible reasons GCB did not collapse despite the huge exposure to the TOR. The former head of BSD in the BoG confirmed, “The BoG authorised the bank to go above legally mandated threshold, because national sovereignty guarantee was available hence overrule the threshold level enshrined in the 1989 banking law. As the only local bank with the largest balance sheet, the nation heavily relied on it to sort out the energy issues”, MSDN concluded. Executive director – Finance (MSMM) confirms that, the sheer size of GCB was the main reason for the state and the central bank to rely on it to ensure TOR survival. “The integrity and stability of the whole economy was at stake, not corporate governance lapses,” MSMM retorted. MSMM further indicates that continues support of GCB through these periods was to avoid the problems of involving other banks will have on the economy, citing liquidated the liquidated SOBs as an example.

Though, the TOR debacle was not a case of mismanagement on the part of controllers, the continuous abuse of government as a major shareholder cannot be ruled out. This case agreed with both political and managerial views suggest that state owners pursue objectives that are potentially in conflict with those of shareholders, who tend to focus on profit maximization. Corroborating this finding, MRAB contend that a powerful government may influence firms to be conservative in their investments to stabilize social and political benefits.

6.5 Conclusion

The chapter studies banks with the residual state ownership before and after the sector privatisation. The concentrated of state ownership minimises the separation between ownership and control and controlling rights are aligned and majority shareholders have the incentive and power to monitor management. However, the study shows that controlling agents in absence of strong regulatory and legal environment appeared to have exploited their private benefits of control by diverting assets and profits out of the firm in the SOBs. It shows also that state as insider ownership maybe obstacles to restructuring, agent risk aversion, and dis-incentives for monitoring of management performance. Government

130As a desperate measure to cover the bank’s liquidity shortfalls, the Mill’s government solicited huge financial support from international donors to settle the TOR long standing debt to GCB in 2009.
continued to appoint key top managers, despite ceding control or shares in the cases studied. The government continued to directly and some cases indirectly influence corporate decisions leading to increased expropriation of other owners.

When the GCB and COOP were compared, evidence has highlighted an extreme case of ownership concentration in both banks with COOP more so. COOP was corporatised (made limited liability Company) with injection of the much needed capital as part of government divestment of control. However, the board and management features remained fairly unchanged leading to the corporate governance outcomes observed. No genuine restructuring of board, management and organisational change were done apart from pre-FINSAP III discussed in section 4.4. The corporate governance problem encountered between 1995 and 2000, were not different from the pre-reform poor governance ones. GCB showed much change board and management reshuffling. Though the board have some government appointees, most important decisions of the board were made with minimum state involvement. As a result, the corporate governance issues discussed improved or changed compared to the pre-1996 era.

When the two banks suffered financial distress and other poor governance practices, the BoG engaged in regulatory forbearance, instead of intervening to force the distress bank to promptly instigate remedial measures, which would have imposed greater incentives on the banking and financial services industry for more prudent management. For example, the two banks extended loan worth billions of Ghana Cedis to single individual shareholder. Previous studies came to similar conclusion that, a residual government ownership does increase the likelihood of banking crises. Situations in which the state retained substantial influence over the banks’ operations, or soft-lending practices occurs eventually resulted in a deterioration of bank performance after privatization (Bonin et al. 2003; Cull et al. 2002).

These findings can be related to several strands of literature on the continuous ownership government after sector deregulation or privatisation. The research supports recent research that the grabbing hand model can describe government behaviour and its involvement in business activities of SOBs. The results are also consistent with the public choice literature emphasizing rent seeking, extraction, and protection as primary motives of government intervention. MRAB agreed with the findings that a political connection to extract resources from the state was undertaken in SOBs. The results further demonstrate that the conflict between economic and political objectives of politicians poses a credible
challenge to market and enterprise reforms in developing economies. The study confirms that partial privatisation or corporatisation of banks can lead to problems involving governments intervening bank loan decisions for political benefits. In Russia for example, the failure of the central government to effectively curtail the agency problem of local governments and firms has been attributed as a major reason why its reform failed (Blanchard and Shleifer, 2000).
Chapter 7: Corporate governance in the traditional and or novo foreign banks in the banking sector of Ghana before and after the sector privatisation

7.1 Introduction

Chapter six analysed corporate governance practices in two SOBs which were licensed before banking sector reforms in 1990. These banks had residual state ownership and were controlled by the government. In exception of the GCB which is listed on the GSE, it is evidenced in the chapter that the COOP management practices and corporate governance weaknesses resulted in the abuse of depositors’ funds, frauds, insider lending and board-executive collusion in extraction of private benefits. One of the objectives of this chapter is to use the case studies to examine how the involvement of foreign investors in privatisation in Ghana banking sector affected corporate governance practices by looking at the newly fully privatised and the traditional foreign banks. Another objective of this chapter is to draw similarities and differences between the banks in the previous chapter and those analysed in this chapter.

To address sub-question three of the research, the chapter presents cases of foreign banks that were fully or substantially owned by their foreign parent group before and or after privatisation in 1995. This group is included in the analysis to assess foreign investor participation in privatization of banking sector of Ghana. The first case (SG-SSB) was state-owned prior to the FINSAP but became an FOB in 1996 through complete privatisation. The second and third cases (BBG and SCB), are traditional FOBs that had their parent companies buoying out the government stakes in them. In the case of SCB, the Standard Chartered, UK later on listed less than 40 % of the shares on the GSE. These two banks were traditional foreign banks established before independence and had majority foreign institutional share ownership before and after the reforms. The text in this chapter is arranged in a similar way to that in the last chapter. In each of the cases, the mode and level of privatisation were analysed. Thereafter board features, management features, compensation, and impact on internal measures are analysed.
7.2 The Case of SG-SSB of Ghana

SG-SSB is included in the analysis to assess the effects of complete privatization or divestment of state shares in corporate governance. It was argued that, residual ownership of government, even in small proportion will encourage government interventions (section 2.5). It is believed that banking crises will be minimized in fully privatized banks but will increase or remained unchanged in the state restructured banks as discussed in chapter two. For example, it is expected that there will be improvement in profitability and portfolio quality of SG-SSB where the government fully divested its shareholdings. Because the foreign investors will not support or invest in loss making firm and they will expect returns on their investments (Shleifer and Vishny, 1997). This case compares the corporate governance in banks which is totally acquired or unlike the one partially owned or in total government control after their privatisation. It also gives an idea on the possible difference that may exist between completely privatized banks (in foreign control) with the traditional foreign owned banks established before FINSAP. Previous studies suggest that corporate governance practices in newly acquired banks by foreign investor and those in the traditional foreign banks may not be the same. This might be due to long experience in the market compared to the new bank which has to contend with new board and top management (Bonin et al., 2003).

7.2.1 Brief History

The bank was established in 1975 by the government of Ghana, and was officially inaugurated in 1977 and it commenced business in June that same year under the name Social Security Bank (SSB). The bank operated like any other bank but mainly as a workers’ bank. It placed emphasis on consumer credit facilities for workers under its Consumer Credit Scheme by granting small, personal loans and hire purchase facilities to workers. It also operated development finance schemes for small-scale industrial and agricultural projects. It had forty branches in Ghana with the headquarters in Accra. It grew rapidly to become the second largest bank in Ghana, with 18% of deposits in the late 1980s, providing credit, including longer term loans, for businesses and consumers. It also invested in the equity of several large businesses during the pre-reform era.

The unique aspect of its initial operations was the introduction of a hire purchase scheme as a unit within the bank. This was designed to allow salaried workers who had accounts with the bank to acquire consumer durables. This popular Consumer Credit Department, which is
now a limited liability company within the SSB group, contributed to the rapid growth of the bank. There were plans for the divestiture of government equity in all development financial Institutions (DFIs), since 1990. Ownership change of banks usually began with government actively seeking what is referred to as a strategic buyer to take over majority shares in large commercial banks. Before the financial crisis, there were restrictions on foreign holdings of stocks of domestic companies. In accordance with the 1989 banking law however, the Ghanaian government took major steps to reduce entry barriers to the financial sector. It lifted the limit on equity holding by an individual foreign investor in a domestic financial institution. The increase in foreign participation in the financial sector through acquisition and foreign direct investment has led to a high degree of foreign ownership with the increasing in the bank. The bank was rebranded and its name changed to SG-SSB after Société Générale acquired over 51% controlling interest in the institution.

7.2.2 Change in Ownership Structure

Unlike the SOBs discussed already, SG-SSB was completely privatised with foreign investor majority and local institutional minorities. SG-SSB experienced complete privatisation from the state ownership to private ownership and control within the study period. In 1994, Social Security Bank (SSB) and the National Savings and Credit Bank (NSCB) merged under a World Bank program, to make it more attractive to potential investors. Unable to find a credible strategic investor, the government of Ghana divested its 21% share of the bank and it was converted to a public limited liability company and subsequently listed on the Ghana Stock Exchange.

### Table 7-1 Shareholding of SG-SSB as at the end of 2000

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name of shareholder</th>
<th>Amount of shares (%)</th>
<th>Ownership Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Société Générale Financial Services Holding</td>
<td>50.24</td>
<td>Public Institution</td>
</tr>
<tr>
<td>2</td>
<td>SSNIT</td>
<td>22.14</td>
<td>State Fund</td>
</tr>
<tr>
<td>3</td>
<td>Daniel Ofori (an Individual)</td>
<td>07.31</td>
<td>Private Institution</td>
</tr>
<tr>
<td>4</td>
<td>Others</td>
<td>20.31</td>
<td>Individuals</td>
</tr>
</tbody>
</table>

Source: Survey data
SG owned 51% after the divestment of Ghana government shares in 1997. Besides the concentrated shareholding by the foreign shareholder, other shareholders are local individual and institutional investors. Although the second largest shareholder in the bank was a public institutional investor (22.1% of the shareholding), Société Générale controlled a significant amount of shareholding. The top 5 shareholders in the bank control a total of 83.47% of the shareholding in the bank whilst the Top 10 control 85.63% indicating a high level of concentration of the bank’s shareholding. The current MD is foreign director with no shareholding in the bank, which is quite different from the cases of the other banks analysed so far (COOP and GCB), where the main sponsor and the majority shareholder in the banks is the government. On the bank’s board in 2000, no executive director owns shares in the bank.

In this regard, the bank has a substantial separation between ownership and management between 1996 and 2000. The main distinction with the SOBs analysed above being that in the case of SG-SSB, after 1996 the shareholders with concentrated shareholding no longer had presence in management. Total absence of government shareholding in the bank also indicates complete autonomy from government intervention in their operations after the ownership change. The chairman of the board was considered to be completely independent with no personal shares in the bank and in position to monitor management decisions and protection of stakeholders.

7.2.3 Changes in Board of Director and top Management Features

Unlike the other FOBs discussed below, the bank undertook a complete overhaul of the board by replacing the pre-1995 government appointees with new ones appointed by the new owners. The probability of replacement of the top manager increased when the enterprise faced harder budget constraints and more product market competition. About 40% of the new general directors came from outside the firm, and 60% from promotion within it. Prior to its acquisition by SG initial board and management restructuring (departure of the owner managers) discussed in chapter four, the SG-SSB’s board of directors experienced several changes between the two periods covered in this analysis. As most of the directors and top managers were appointed by the government based on political expediency, board members usually lacked the expertise necessary to contribute meaningfully to the decisions of the board and might have also contributed to the banking crisis observed prior to the FINSAP. It meant that the way banks were governed reflected the
features of owners and or high level individuals within the banks. The bank undertook several major board restructuring bringing in foreign and domestic experts. As a result of these changes, SG-SSB had developed a reputation of fairly progressive banking organization with continues renewal of experienced and competent board. Rusticated directors were predominantly government appointed directors who were either politicians and or bureaucrats from the public institutions. Apart from competence, foreign directors mostly from the parent group (SG) were needed to inculcate the group culture into the top managers of the bank.

The prevailing regulatory board requirements appeared to have had limited influence on how the board of SG-SSB was composed after its privatisation. The respondent was of the view that the standard expected from the new owners was higher than they practiced between 1995 and 1996. MEYK confirmed that, the new owners stated their expectation just after the takeover by replacing top managers with foreign experts ensure that quality was not compromised at board and top management levels.

7.2.3.1 Change in Board Composition and Independence

Validating the survey data, SG-SSB made many improvements with regard to board composition and independence between 1996 and 2000. At the end of 2000, the total number of directors on the board varied from five to thirteen, with an average of nine. The percentage of board members that were non-executive directors was found to be 66.7%, compare to almost none before its privatisation. The separation of MD from the position of board chairperson potentially enhances the board’s independence and this is based on the rationale that the roles of supervisor and supervised should not be combined. Unlike in the SOBs discussed above, there was total absence of government appointees and or politicians on the boards and top management. This is not unexpected as the government had divested its shares in the bank and was not represented on the board. The heavy presence of the foreign professionals potentially will incline the bank to be run along business lines consistent with international standards.

Consistent with the survey data, MEYK suggested that SG quickly overhauled the board and top management with more experienced and qualified internationals to argument the retained local managers. The board consisted of eight board members of which three were executive directors. Taken as a percentage, non-executive directors constituted 72.7% of the
Most of the outside directors were professionals with wide ranging backgrounds. Unlike the traditional foreign banks discussed in sections 7.3 and 7.4 below, SG-SSB’s board composed of more foreign experts than their Ghanaian professionals. MEYK was of the view that, the new owners (SG) would not like the repeat of the pre-privatisation poor performance of the bank. The presence of the foreign experts of different nationalities (mostly trained at the France Headquarters of the bank), was to inculcate the culture and practices of the mother company in the psychic of the new privatised bank. The managing Director was also foreign expert appointed by the bank. When the bank was listed on the stock exchange in 2001, the bank had a board which seemed improved and compliant with international best practice, since its parent company is listed on other European stock exchanges. Consistent with GCB, SG-SSB had several subcommittees that are intended to increase the efficiency of the decision-making process, including legally compulsory subcommittees such as the audit committee and nomination committee. In the interview conducted with the executive director (Legal), MEYK suggested the presence of the foreigners on the board helped them placed appropriately qualified individuals on each committee as much as possible. The average number of committee members and independent members was around 4. Thus SG-SSB was found to comply with the corporate by laws or group policy regarding the number of committee members. For example it was found that more than one accounting and finance experts were on the credit and audit committees.

In general, the proportion of non-executives directors on the various committees was much higher than the executives in 2000. The mean size of the audit committee and the risk management committee was four, 1 executive and 3 independent. In addition to these committees, SG-SSB had executive committees (governance and risk) responsible for providing professional opinions and assistance to directors on the efficient and effective implementation of strategies, reviewing operating performance and significant issues confronting banks, and managing risks systematically and proactively. Conspicuously, the Credit and audit committees were composed of all foreign independent directors, including the Chairman, and other non-executive foreign experts.

The study found that board meetings and committee meetings were held at short notices in the bank immediately after SG takeover. According to MJAE, this enables the board to meet regularly, retain control over the institution and monitor the executive management. As such major committees of the board (such as; audit, compensation, risk, nominating and
appointment committees) were not in place before 1996. Hence, the board of directors were unable to perform various critical functions and over time the board of most SOBs were just a talk shop.

7.2.3.2 Qualification, Knowledge and Expertise

Pre-reform appointments were made by government based on political expediency and not in their ability to manage efficiently. It meant that the way bank is governed reflected the features of the controlling owner and or high level individuals within the banks. This changed in 1996 with more professionals (home and abroad) were engaged by the bank. The majority of the outside directors had academic degrees above the master's level, and most of the outside directors had degrees in finance and economics. On the other hand, the proportion of foreigners to total non-executive directors is more than 50%. Increased foreign shareholding and foreign director representation on the board may be important indication of board independence. This signified a change from pre-privatisation board dominated mostly of political agents that were not necessarily qualified for banking business.

7.2.3.3 Objectives and Functions

Consistent with the survey reports, the board roles and functions were geared towards profits maximisation after its privatisation in 1996. The independence of the board was shown in the way the board now carried out it businesses without day-to-day parent group interference between 1996 and 2000. However, appointment and replacement was influenced by the parent group, as significant board members were SG directors or foreign experts. The increased appointment of independent directors from home and abroad observed was key reform measures that significantly increased independence of boards and make them more effective in pursuing the interests of the bank and all shareholders instead of just the interests of dominant shareholders. It was also found that, the independence of the directors encouraged increased board activities through increased meeting attendance. This corroborate the survey data analysed in chapter 5 which indicates directors appear to have significant level of independence when it comes to the constitution of the board and its function.

The board had an average of six full board meetings, excluding many committee meetings and informal meetings within the corporation premises. The increased meeting attendance might have been due to the increased foreign directors who were permanently attached to
the bank and are always present to participate in the deliberations. It was also noted that informal meetings were very important, as the foreign directors used this as information gathering pending the full board or committee meeting. In fact, these foreign experts were not encumbered by any local affiliation except their annual leave plan. Otherwise, they were always working through formal and informal channels and in so doing increase board activity and interaction. These situations made their independence unquestionable, in particular, their proactive posture in to setting board agendas. This finding gave credence to the suggestion that boards with a majority of independent directors and with a high meetings frequencies provide the strong monitoring capabilities (Nam, 2006).

7.2.4 Changes in Organisational system and senior management Features

SG-SSB experienced cut down in expenses and cut in staff force towards commercialisation. The banks to instigate a paradigm shift drastically overhaul the staff force. Similar to the changes discussed on the board level of the banks, management specialists and skilled staff were engaged and retained. New employment policies and the organisational structure were adopted alongside the labour lay-offs to remove overstaffing and its attendant inefficiency. To serve this purpose of new direction, new management without pre-privatisation mentality and mind-sets were engaged. MJAE confirmed this, “Bringing new blood was the main route the bank took in changing key staff, while the few retained ones were given extensive training in and outside Ghana”.

SG-SSB had new clear corporate policies in place to give guidelines as to how senior managers of the bank are appointed. MJAE also indicates that, the MD had strongest voice in the selection and dismissal of middle managers and branch level managers between 1996 and 2000. Efforts were also made to maintain the required numbers of staff to man the profitable branches. In addition to engaging qualified individual to branch/departmental positions, the existing staffs were pruned to ensure efficient running of the banks. The respondent indicates that, the bank underwent post privatisation restructuring of existing staff, which he referred to as pruning process to get rid of poorly performing branches and unqualified staff.

7.2.4.1 Branch and Staff Rationalisation

Consistent with what pertained in GCB, the bank had undergone a further staff restructuring or rationalisation (post privatisation slimming) to make the bank more efficient. SG group
initiated organisational structuring immediately after acquiring more than 50% ownership in the bank. This was done to reverse the pre-privatisation inefficiencies and losses the bank experienced before its divestiture. Some of these workers were removed either through attrition, or retirement or voluntary retirements. Redundant employees were absorbed by new businesses in the financial industry, which were spreading as a result of the sector liberalisation. Subsequently, all current staff was inculcated with the mind set of healthy competition. As such, they were asked to compete with both internal and external applicants for any job opening in the bank. For example, between 1997 and 2000 when bank was totally privatised the staff number reduced drastically from 1472 to 688 in 2000 respectively even after industry-wide restructuring. The pre-reform high staff and branch numbers might have contributed to the high inefficiency and losses observed before the ownership change in the bank. Up to fifty per cent of loss making branches were also closed over the same period.

Intensive training programmes were introduced to equip their management and key staff with appropriate knowledge and skills to change their ways of doing things and make them more efficient. Training and career development programmes were conducted outside and domestically to update management and staff knowledge. This was important to gear the mental attitude of top managers to the changing economic environment in Ghana, especially when managers stay in the same posts. As state bank with long history dating back to pre-FINSAP era, the bank still had some managers with low educational attainment after the divestiture. The respondent confirmed that only few managers that survived the rationalisation were holding secondary school leaving certificates in 2000. It was difficult, if not impossible, for a holder of a GCE or Middle School certificates to find non-manual job in the bank after the SG takeover. The HR staff interviewed confirmed that, ‘even messengers, drivers and security staff of the bank and or attached to the bank are required to hold at least secondary School leaving certificate or technical/vocational training’. This make the work of key staff much more easy, as even a driver or other non-key staff could sell company brand. It was noted that, workers are motivated to achieve a lot more than the position they occupy. “Staff have opportunity to upgrade and develop their career in banking, as long as they are committed to it, the current job description is irrelevant”, the HR suggested.

The bank’s old ways of management and job for life attitude have been removed and regular training schemes established to keep abreast with the innovations, as poor performing staff were virtually removed from the bank. It was realised from the discussion that, the bank
sends their staff regularly to Banking College for refresher training in theory and practice, in some cases long serving officials benefit from tertiary education in local and international educational institutions. Attachments were also organised for the executives and branch managers at the France and African regional offices to update them on the international best practices and group practices.

### 7.2.5 Compensation and Management Evaluation systems

Unlike pre-privatisation politically determined remuneration, incentive based remunerations was used by the banks to attract and retain high-quality directors and managers. As part of the change process, the expectation is that the performance of managers in the banks were vigorously evaluated in line with agreed business goals, and managers remuneration more in line with results of such evaluation, than previously. It was also observed that the monitoring and evaluating management of the board had increased between 1996 and 2000.

In line with the survey data and GCB case above, the respondent confirmed that the pecuniary incentives increased consistent with those of their sister companies in the African sub-region. In 1995, remuneration of senior staff was largely based on monthly salaries in line with public service pay structure. The remuneration scheme was varied in order to better align the interests of bank managers after 1996. As observed in GCB discussed in section 6.4.5.3, the top executives were rigorously evaluated by the board against the business threshold levels such as the loan qualities and profitability ratios. Most executives as a result obtained significant earnings through bonuses. For example, executives directors were assessed on their performance and held responsible for progress/problems, The chief executive in Ghana is held accountable to two higher authorities of the bank, and everything the MD does is monitored by the regional head of the bank covering the West African sub-region and a designated Group Executive Director located at the group's global headquarters. Generally, Executives in Bank are rewarded based on bottom-lines (e.g. recovery of bad debts, profit, reducing losses, recovery quality and deposits).

Using the same remuneration system as that for the top executives, the salaries of branch managers in SG-SSB were much more incentive-based than those in the previous banks studied. Every month, department and branch management managers signed a task agreement with the executive committee, against which his/her performance was evaluated. The evaluation result not only determined the monthly bonuses of managers, but served as
an indicator for the bonuses for the employees subordinates to them (internal document). Furthermore, the aggregate results of the monthly evaluations were worked out at the end of the year to determine the future of the managers. All of the department/branch managers were ranked every year according to their aggregate score. Those who ranked among the last three were removed from their posts if they failed to improve their performance in the following six months. Similarly, senior managers of affiliates were also ranked and those among the last three were removed without further observation. It appeared that, increased numbers of financial institutions appear to have had an effect on the compensation structure in SG-SSB. A non-executive director who responded in an interview indicates that financial incentives are important as the social status as a banker. However, the proportion of institutions entering the market demanding skilled workers influenced current compensation offered directors and senior staff. He notes that compensation scheme introduced in 1996 did not only put into consideration adequate performance of the bank but the active labour market.

Before its divestiture, there had not been any known management or staff evaluation linked to performance. After its takeover, management and skilled staff evaluation had been rigidly enforced for senior managers and middle managers. Regarding the performance appraisal of the other managers and key staff, there was an official policy to evaluate once each year, in which respect, the evaluating authority is delegated among different levels of officers. The facts that there is a policy and practice of annual assessment of executives is encouraging in terms of good governance but in reality, follow-up action are rarely taken after the evaluation of the managerial staff. In order to obtain or fulfil their business (sale and loan recovery) targets, the management had an effective control and remuneration system, similar to that found in BBG and SCB discussed in 7.3.4 and 7.3.4. All executive signs an annual task agreement, which specified the main business and management goals to be achieved within specified period. The Boards of directors and senior management often request presentations and performance reports that enable them to review the bank’s progress toward its goals in order to meet the multiple stakeholder goals. Functional reviews occur more frequently than top-level reviews and usually are more detailed. For instance, commercial lending was reviewed weekly and delinquencies, payments received, and interest income earned on each portfolio reviewed. While the senior credit committee may review similar reports on a monthly basis, the executive officers were mandated to have up to date status on all major transactions. As with the top-level review, the questions that are
generated as a result of reviewing the reports and the responses to those questions represent the control activity”. Performance of individuals is considered in promotional and career development programs by management. The HR official and the MD both agreed that appropriate positive and/or punitive actions are very swift in the bank, and confirmed that reputation, and being part of a global bank is crucial to their motivation to excel.

7.2.6 Effects of Corporate governance on Internal and risk management issues

Pre-privatisation performance of the bank was riddled with corporate governance weaknesses that contributed to the bank’s insolvency and some of the fraudulent practices before 1996. As a result the bank suffered significant financial prejudice as a result of the conduct of the former executive directors particularly regarding insider loans (Brownbridge and Harvey, 1998). However, in line with the changes observed in board features above, the internal control issues recorded no poor corporate governance issues between 1996 and 2000. The next paragraphs outlined how the changes observed affected the corporate governance practices after the bank was privatised.

7.2.6.1 Top Management and Risk Perception

SG-SSB appeared to have reversed the poor internal control system and risk management practices since its divestment. Top management perception on risk issues changed drastically, as senior managers were more involved in risk management instead of junior staff as experienced before 1996. MEYK opines that the presence of the foreign directors created the necessary awareness in directors and senior management conducts compare to the pre-reform era where management qualities were not considered in their appointment. Internal controls were revised by the bank to appropriately address new and or previously uncontrolled risks. For example, the board is composed of individuals of international repute most of whom may not do anything to undermine their hard-earned international reputation and that of bank. This confirms the survey data completed bank indicating that the privatisation had enhanced quality of top bank managers.\footnote{To recap for instance, the fit and proper test has been codified into the banking law (Act 673) and applied to bank directors, and senior management. In addition, SG specific requirements must be fulfilled by the managers of banks.} When necessary, the audit department shares information and engages in discussions with the audit committee and external auditor. The Internal Audit Department audits the execution of duties by the directors and employees, working to prevent any violation of the laws, ordinances or
company code, if necessary in cooperation with external specialists. The results of internal audits are reported to the Board of Directors through the committee once every two months. Also, when required, the Internal Audit Department shares information with the corporate auditors and the accounting auditors regarding management-related issues or problems.

7.2.6.2 Internal audit and Disclosure system

The change aimed at ensuring the reliability of bank's financial statements and the soundness of related internal control processes through the work of internal and external auditors. To meet both shareholder and BoG expectations, standard accounting and auditing systems were established. Activities of the bank were controlled and duties segregated in order to monitor and correct deficiencies when necessary. In so doing, auditors were encouraged to meet requirements that will keep the banking system sound. Any staffs found to be reckless or in breach of the system is quickly cautioned (with letters) and withdrawn if the breach of rule continues. The bank also introduced explicit criteria for the classification of loans, provisioning for non-performing assets and unpaid income to balance its lending and investment decisions. MJAE recaps “In fact, failure to adhere to these principles may cost the banks reputation (ratings) and avoid unnecessary fines; no rational business will like to find itself in such situation”.

The bank also engaged an international reputable firm to replace the local one as its external auditor in an attempt to produce a reliable result and maintain sound internal control system. Unlike in the past, external auditors have more access to the information system in place and an understanding of the internal control system. Information available was more reliable in determining the nature, timing and scope of their audit procedures. This arrangement enables the external auditor to gain more understanding of the bank’s internal control process to the extent that it relates to the accuracy of the bank’s financial statements. The absence of pre-reform era collusion made the role of the external accountants more independent between 1996 and 2000. As a result, opinions on the annual accounts of the bank after 1996 were free of discrepancies and more reliable\(^{132}\).

\(^{132}\)The bank attempts to improve the reliability and independence of auditing by international external auditors. Before reform, government officially appointed external auditors and had the power to actually select the external auditors because they controlled the bank. As a result, the independence of auditing firms was seriously undermined.
Prior to 1996, information in management reports was not complete or accurate, creating a falsely favourable impression of a business situation prior to the bank’s divestment (Brownbridge and Gockels, 1998). The bank over the periods in question established record-keeping process including established procedures for record retention in order to meet prompt stakeholder demands. According to MJAE, the structure facilitating this communication allowed information to flow upward so that the board of directors and senior management are aware of business risks and operating performance of the bank; downward so that objectives, strategies, expectations, policies, and procedures are communicated to lower-level management and operations personnel; and across the organization to ensure that information from one division or department can be shared with others. It also speeds up information flows upward, downward, and across organizations within the bank. In doing so the bank has information that is relevant in content, reliable in nature, timely in availability, accessible to the public, and provided in a consistent format prescribed by law. The frequent time of submission reports to BoG, GSE/SEC and head-office influenced management meetings. More meetings are held to discuss that arose from the reports. MJAE said, “As for the content and reliability, there is no question about them because we disclose more information than legally required. Our group leader who is responsible for the sub-region demands minute by minute information and this keeps the bank up to date in all aspects of its operation”.

MJAE therefore disagreed that the existing banking law and or the role of pre-privatisation regulatory framework were the key factor behind the change in the reporting and audit functions of the bank. He suggests that the bank focused on the implementation of SG group’s strategic blue print that gives directors clear guidance and responsibility on all aspects of the banks operation and internal control procedures. The relationship manager of the bank, MOAB confirmed that the pressure to meet the stakeholder demand prompt the bank to adopt proactive position to ensure regular and timely disclosure. MOAB thinks inquisitorial on-site supervision adopted by the BoG cannot be overlooked. For example, managers were made to lose financially when they are penalised for late disclosures. MRAB notes, “The ever presence of the foreign directors and the frequency of their queries will make any responsible management team to deal with the issues that will cost the company
money”. Thus, quality of banking officials and corporate culture drawn from parent group was the cause the good corporate governance record since the reforms were implemented.

7.2.6.3 Loan Administration, Recovery and Related Transactions

One of the issues before 1996 was the prevalence of insider loans related party transactions such as the bank’s executive directors, connected businesses in state banks. Unlike the SOBs discussed already, SG-SSB requires an assessment of the purpose of credit, the source of repayment, the borrower’s reputation, the enforceability collateral or guarantees, cash flow projections of the borrower, the adequacy of collateral or guarantees, legal capacity of the borrower to assume liability, and the proposed terms and conditions of credit. This policy is applicable to all types of clients, staffs are no exception.

To reverse pre-1996 poor credit administration, the credit committee made solely of foreign directors was responsible for credit administration. Credits were extended at arm’s length (ability to pay back) and transparently between 1997 and 2000. No staff loans are extended without the knowledge of the credit committee. The relationship manager interviewed further disclosed that, as a matter of policy the bank does not extended loans to directors and their private businesses or related parties. He however thinks that top managers were permitted extended loans on special situations of need to deal with emergencies only. The respondent confirmed that, credit administration and management have taken centre stage (strategic issues) in SG-SSB. Loan issues are done through following strict written credit policies and procedures related to a number of key items. Also, certain requirements are also to be considered when entering into new credit relationships so that a bank can be confident that only reputable and creditworthy individuals or organizations are dealt with. In so doing the bank avoid association with individuals involved in fraudulent activities and related crimes. This according to the MJAE was enforced by SG-SSB board committee, and a very strict policies and procedures to manage risks in the bank were followed. A system of documented approvals for monitoring adherence to assigned risk limits and for maintaining safeguards for access and use of bank assets and records were rigorously followed. Even transaction under the authorisation limits of branch and departmental level were regularly audited by the foreign dominated audit committee quarterly.

133The bank had multiple layers of rules to comply with. These included its internal corporate rules, local laws and international corporate governance codes such as those applied in the France where the parent group is domiciled.
In light of this stance taken by the bank on credit administration, there were no reports of fraud or the arrest of the executive directors for abuse of depositor’s funds after 1996. The chief examiner of banks in the central bank corroborated this, indicating that the bank appears to have implemented sound internal control systems with checks and balances to avoid fraudulent transactions. The reduced reported corporate governance violation in the bank generally indicates the bank is close to an impeccable corporate governance record. As noted earlier, the impact of foreign experts in bank’s practice of international best practice principles cannot underrated.

7.3 Case study FIVE (BBG)

This case study explores the privatisation and corporate governance practices within Barclays Bank Ghana (BBG), a traditional foreign bank established before FINSAP. The foreign partner of the bank (Barclays PLC) entrenched its hold on the bank through acquisition of all the state shares during its privatisation. This made the BBG a complete private foreign company. With its parent company in London, United Kingdom, BBG enables an analysis of privatisation and corporate governance of a foreign owned bank. Unlike the SOBs discussed earlier, this bank had been controlled by foreign owners; neither BBG nor its directors were affected by any major crisis. This allows for comparison of the privatisation (foreign participation) and corporate governance issues in BBG with the Group A cases analysed in the chapter 6. The case enables the researcher to compare completely owned foreign bank with other foreign controlled banks that have local private investor participation.

7.3.1 Brief History

The bank under study is the Ghanaian subsidiaries of the holding companies in UK and the second to be established by the colonial administration. Its vision is to become the best bank for every customer, in every branch, for every product and every time. Barclays Ghana has a major corporate banking network with branches in all of the country’s main business districts. A broad range of products and services designed to meet the needs of these corporate customers includes micro banking accounts for low-income market traders and solutions tailored to meet the needs of small to medium-sized enterprises. World-class
Prestige Centres and a Premier Centre in the capital city, Accra, cater for affluent personal account-holders.

BBG experienced no losses or corporate governance weakness before and after FINSAP. None of the directors in the bank were affected in the form of arrests, accused of fraud or abuse of depositor’s funds. Due to its international character, the bank is believed to maintain higher standards of corporate governance and a traditional approach to banking, focusing on corporate banking and retail banking. An informant from the central bank expressed the view that there was no record of BBG having engaged in any transaction or activities which were inimical to the health of the bank. This may explain how the bank survived the crisis.

7.3.2 Change in Ownership structure

Unlike all the other FOBs, BBG did not sell the shares obtained from the government during its privatisation. The ownership structure of BBG is simple, the entire bank is owned by its parent company, having acquired the government shares (40%), without changing its business strategy and practices. It remained the Ghanaian subsidiary of a Barclay bank registered in UK. The parent group of BBG (Barclays Pty) took advantage of this and retain all 40% share bought from the government. Table 5.2 in chapter 5 indicates that BBG was 100% owned after the major shareholder buy out the government’s equity shareholdings.

The main distinction with the banks analysed in the previous section being that whilst SG-SSB undergone complete private sector acquisition the BBG still had its former majority acquiring more shares. Thus, compared with other foreign banks, BBG, after state divestment saw the parent company (majority shareholder) increasing its grip on ownership up to 100%. There is absolutely no executive with shares in BBG, making it a clear separation between management and owners. According to literature on corporate governance, if more than 50% shares belong to shareholders, the company is considered to be under perfect owner control (Grosfeld and Tressel, 2001). In line with this view, one could argue that BBG falls under perfect control of its parent company. However, if the board does not include any member with 10% or more shares, a firm is considered to be under executive control (La Porta et al., 1999). In line with this argument, BBG can be considered a management-controlled firm. While the parent company owns 100 per cent shares, the board in BBG is comprised of executive members, and since the board is the supreme authority in terms of
local decisions, the bank’s control invariably goes to the executives. A legal director of the bank suggested that the owner institution does not interfere with the local executives’ decision-making, and merely prescribes policy guidelines and evaluates the decisions taken at local level to check whether they are in line with their corporate principles. Only if discrepancies or irregularities are found, did the owner institution intervene in the decision-making of management.

7.3.3 Maintaining Conservative Board of Directors Features

BBG did not experience any major change of board features, may be due to the fact that the reform did not involve any new owners. Consistent with the survey data, there has been no appreciable change in board features discussed, when the MDAK was asked to indicate whether or not there had been changes in the two periods. Thus, after the acquisition of the 40% shares from government, the corporate governance board and management features remained stable. This is consistent with the well-known position that the Barclays is known to be well managed bank globally. The bank appears to stick to their pre-reform features and acquisition of government equity did not affect their board and management features at the close of 2000.

Consistent with the survey data, MDAK did not observe any changes in the board features and management features. For example, BBG had 13 board members for the two periods. The BBG board structure shown in the survey data indicates that independent directors made up of 75% for both periods, with foreign experts on the board at both periods. The board structure had similar pattern to that of UK BBG Holdings, with eight non-executives and two executive directors. The qualification of the directors on the board shows diversity of backgrounds and skills necessary to run a financial institution. The boards comprise of bankers and financial experts, lawyers, chartered accountants, respected Economists and management experts with banking experience at higher level. The chairman of BBG is a non-executive director with vast financial sector experience. The composition of the board with independent and well qualified individuals indicated a good corporate governance posture of the bank. The board is solely responsible for the running of the bank in Ghana, no report of external interference, even when the government held 40% of the shares. The sole authority regarding the appointment of the directors lies with the board of the bank. It was suggested that the board operates mostly through committees, with relevant qualification and experiences to make appropriate decision. For example, the nomination Committee
comprised of the four members carried out task of selecting candidates for various position. Normally the choice made by the committee team is supported by the entire board and there is no prior instance of conflict or voting in the board over the selection of the MD. Other important committees were responsible for other board functions.

7.3.3.1 Conservative Management Practices

Consistent with the board quality, qualification of management and staff did not change drastically over the period. The criterion for appointment is purely on qualification and competence and recruitment is done from home and abroad, spreading the chances of getting the right people to manage the bank. Apart from the executives and top managers, the board delegated the appointment of other managers to the MD and the management committee compared with the state banks discussed in chapter 6. In spite of good corporate governance records since its inception more than 100 years ago, the bank’s risk taking measures has been questioned recently. According to a supervisor from the central bank interviewed, although BBG appeared to have implemented sound internal control systems which resulted in adequate checks and balances in the bank, there were several internal control weaknesses in the bank which resulted in expansion and management lapses. BBG sticks to pre-reform strategy of appointment devoid of majority shareholder involvement. In all cases public recruitment was frequently used to create competitive pressure on insiders who also applied for the position. In most instances, the bank leaves the recruitment process in the hands of the Recruitment Consultant, where short lists of potential staff were finally selected by the bank management.

7.3.4 Change in Compensation Structure of management

In reaction to the ever increasing number of the banking and non-banking financial organisations, the bank appeared to have increased the salary and other pecuniary motivations drastically to ward-off competition and attract qualified individuals. Contrary to the board and management issues, BBG experienced an increase in compensation schemes between the two periods. Performance linked or incentive packages were introduced in consistent with the market demands. In general, total compensation in BBG comprises an annual base salary, reflecting the individual’s role, skills and knowledge, local market-based benefits and, where applicable, a discretionary incentive award. Base salary level is sufficient to allow for a flexible discretionary incentive policy. Discretionary annual incentives may vary from year to year, particularly for senior revenue producers and highly paid employees.
These incentives are granted in the form of cash awards and increase with total compensation in order to maintain focus on long term profitability and continue responsible behaviour of employees. For example, pay for performance is the guiding principle of BBG reward policy. In accordance with the total reward principle, variable compensation take into account a range of performance factors including delivering sustainable profitability, effective risk and capital management, client focus, team work and sound governance. For example, in 2000, top managers were excluded due to the dip in financial result of the bank.

7.3.5 Impact of conservative corporate governance practices on internal control and risk management

BBG did not experience many changes to its internal control issues within the periods. MMQA opines that, the bank have corporate governance practices consistent with the international practices. As a result of good corporate governance, it can also be argued that BBG despite the volatile macroeconomic environment prior to banking crisis in the 1990s, the bank had suffered minimum liquidity crisis compared to the other state banks or indigenous banks (discussed in section 4.4). It indicated that the bank survived the crisis largely due to robust corporate governance and may be financial support from parent company that was available for the Ghanaian subsidiary. Nonetheless, the absence of frauds and insider transactions in the bank may indicate sound internal control mechanisms in the bank before the sector restructuring.

7.3.5.1 Internal audit system and Disclosure

The bank kept its pre-1995 audit system and no changes has been done. The bank had in place a number of audit-related mechanisms that automatically and regularly indicate many problems before and after the reform. The first such mechanism is the KRI system (Key Risk Indicators). All business divisions have been assigned a number of pre-determined indicators pertaining to their respective activities, and each month the business divisions prepare a KRI report, which they send to the MD and the regional office, where the reports are evaluated. Immediate action is taken if any problems are found. Unlike other local banks in Ghana, who conduct audit on a regular interval, the constant off-site audit together with extensive on-site audit helps to bring accountability in the bank’s activities. In addition to KRI there is another monitoring mechanism, this being a monthly activity-based report, which the board is responsible for preparing. It was noted from the discussion that, management decision-
making is less adversely affected by possible unreliable or misleading information that might be generated by a poorly designed and controlled system.\textsuperscript{134} In addition, the bank encouraged flat organisational approach to enhance information flow consistent with the parent company.

Though it is not listed on the domestic stock exchange, BBG complies with the stock markets disclosure requirements may be due to the listing of the parent group on the London Stock Exchange (LSE). Both the regulatory bodies require a publicly listed firm to disclose its various performance results in the annual report before the AGM. Similar to other listed banks, the annual reports are the main vehicle of disclosure for the bank. The banks publish its annual report before each year’s AGM and this is sent to all shareholders before the meeting and to the SEC after the AGM as a statutory requirement. However, the annual report is not distributed to anyone else proactively other than the shareholders and the SEC. The annual report discloses the names of the board members, the chairman, a report on the bank’s activities and three financial statements, namely the balance sheet, profit and loss account and cash flow statement.

7.4 Case study Four (SCB)

This case study explores the privatisation and corporate governance practices within Standard Chartered Bank (SCB), a foreign bank which was unaffected by the banking crisis before and after financial sector reforms. SCB, UK through privatisation drives of Ghana government bought back its shares in BBG, Ghana making it a private foreign company. Hence, the bank has always been owned and controlled by its foreign parent company. With its parent company in London, United Kingdom, SCB enables an analysis of privatisation and corporate governance of a foreign owned bank. Unlike the other foreign bank (BBG) discussed earlier, it is listed on the Ghana stock and exchange (GSE). It is suggested that opening capital markets to foreign investors can improve corporate governance and prevents excesses of the major shareholder (John et al., 2008). This allows for comparison of the privatised banks controlled by foreign investors regarding corporate governance and management issues.

\textsuperscript{134} Banks must be particularly aware of the organisational and internal control requirements related to processing information in an electronic form and the necessity to have an adequate audit trail.
7.4.1 Brief History

The Post Office Savings Bank (POSB) began operations in 1888, using the facilities of post offices in the country. The British Bank of West Africa, now the Standard Chartered Bank (SCB), was established in the then Gold Coast in 1896, followed by Barclays Bank DCO, now Barclays Bank Ghana Ltd (BBG) in 1917. These banks were overseas subsidiaries of banks incorporated in the UK. Their operations were dominated by financing trade between the Gold Coast and UK. BBG has an expansive retail and commercial banking network in the country with 96 branches and over 130 ATMs in all regional capitals and major towns. It was the first commercial bank to operate in Ghana, then known as Bank of British West Africa (BBWA). SCB, formally known as Bank of British West Africa, has been in operation since 1896. The Bank is 80% owned by Chartered PLC, and the remainder of the stock is owned locally and traded on the Ghana Stock exchange. The bank was listed on the Ghana stock exchange on August 23, 1991. It is the oldest bank in Ghana and ranked consistently amongst the three top banks locally. The bank provides a wide range of services in the consumer and corporate and institutional banking sectors; including comprehensive trade finance, cash management services and foreign exchange products through treasury operations.

7.4.2 Change in Ownership structure

Since it started trading in Ghana and its subsequent listing on the Ghana Stock Exchange, SCB has remained a foreign owned bank, with Standard chartered PLC owning 67.7 per cent through a proxy shareholder, Standard chartered Holdings (Africa) BV. Besides the concentrated shareholding by the foreign shareholder, other shareholders are listed in table 6-2. In addition to the proxy shareholder of SCB, all the other shareholders in the bank are institutional investors, the majority of which was the pension funds (21%) and insurance companies. This shareholding structure was similar to what was found in all the listed banks studied. The top 5 shareholders in the bank control a total of 83.47% of the shareholding in the bank whilst the Top 10 control 85.63 % indicating a high level of concentration of the bank’s shareholding.

Since it started trading in Ghana and its subsequent listing on the Ghana Stock Exchange, SCB has remained a foreign owned bank, with Standard Chattered, UK owning larger shares after the divestment of the procured government shares.
Though 40% of the shares were sold back to their foreign institutional owners, SCB floated some of the share bought back from government on the GSE to other institutional shareholders. Shareholding and management structure between after listing on the Ghana stock exchange in 1996, Despite being the first bank to be licensed, the bank's ownership structure did not typify ultimate ownership as was the case in BBG. One of the reasons for this is probably because by 1997, the bank had already listed on the GSE and on the LSE. Although the majority shareholder in the bank was an institutional investor (parent company), the pension fund (SSNIT) controlled 22 per cent of the shareholding, with the rest of the shares held by over 20 institutions (Table 7-2).

Table 7-2 Post Privatisation Shareholding in SCB

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name of shareholder</th>
<th>Amount of shares (%)</th>
<th>Ownership form</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Stanchart (Africa) BV</td>
<td>60.0</td>
<td>52.24</td>
</tr>
<tr>
<td>2</td>
<td>Government</td>
<td>27.5</td>
<td>0.0</td>
</tr>
<tr>
<td>3</td>
<td>SSNIT</td>
<td>0.0</td>
<td>22.0</td>
</tr>
<tr>
<td>4</td>
<td>Daniel Ofori</td>
<td>0.0</td>
<td>7.31</td>
</tr>
<tr>
<td>5</td>
<td>17 institutions</td>
<td>0.0</td>
<td>17.0</td>
</tr>
<tr>
<td>6</td>
<td>others</td>
<td>12.5</td>
<td>1.45</td>
</tr>
</tbody>
</table>

Source: Survey data

Apart from Daniel Ofori, all the private owners held less than one percent of the shares each. Consistent with BBG, SCB have been run by professional managers who have little or no equity interest. Although some executive directors are believed to have owned shares in SCB, they were held through the local institutions. These are small fraction of the bank's shares in their personal capacity; the total percentage of this shareholding is below one per cent. Historically, the bank has always had a separation between ownership and management. SG-SSB has taken an outlook of BBG and SCB, as its board are also manned by foreign and local professionals with no equity participation.

7.4.3 Conservative Board and management Principles

In spite of involvement of new owners in the bank, board and management features remained fairly stable between the study periods. Though the bank re-listed the acquired shares to private individual and institutional investors, interview shows the bank maintained
same board with no major reforms. The “status quo” was maintained in the absence of any blockholder among the minority shareholders. The responses from the bank’s questionnaire completed by the bank’s executive director (legal) confirm that there had been no significant changes to board features between the two periods considered. As indicated by the data collected on the bank from the questionnaire survey, the observed features of the board was due to bank’s by-laws or parent group influence rather than as an initiative from the BoG or GSE.

The board of SCB constituted slightly more of non-executive directors and chaired by a Ghanaian Non-executive director in 2000. The board has a total of nine board members, five of which are nonexecutives constituting 67% of the entire board for both 1995 and 2000. This complies with the combined code of the UK and the companies’ code. Similar to BBG analysed in 7.3.3 above, the proportion of executive directors appears to be high on the board of SCB. The potential executive domination of the board could be minimised by the objective and independent disposition of the foreign experts on the board. One will expect that after over 100 years of operation in Ghana, SCB will have enough local staff to manage the affairs of the bank, but interview conducted showed that, it is the bank’s policy to go for global and regional labour market for its key board and management positions. SCB was the first bank to be established in Ghana, it still has a numbers of foreign experts. However, these directors have no shares in the bank they are recruited based on their competence and reputation. They had extensive experience in banking in the African continent and could be referred rather to as experts in African banking rather loosely as foreigners. For example the director of finance from Tanzania became the executive director for Finance in Ghana.

Contrary to SG-SSB, the foreign experts on SCB board were not from parent group office (in UK), but from the Africa sub-region. MDSZ confirmed that, they were a lot of Ghanaian experts serving on the banks boards and management positions across Africa and Middle East. In MDSZ’s own words, “Skills are not concentrated in any country, hence the bank in line with the parent group strategy looks both locally and internationally and within or outside the bank to fill positions. Skills in other countries could be moved to where they may be needed”. Unlike in BBG the board did not mirror the parent board which has a total of 16 directors with 11 of them being non-executive directors. Besides the main board, SCB also has an Audit Committee, Risk Management Committee, Credit Committee and a Remuneration Committee which are all chaired by non-executive directors.
In case of management features, top management exerts authority on strategy formulation, credit approval, recruitment and dismissal, audit etc. However, in practice, the relevant divisions are accorded many of these decision-making powers, although the MD remains as the main executive responsible for the overall performance of the bank in Ghana. As a result, the MD actively monitors all divisions, and intervenes where the executive considers this to be appropriate. The MD also takes care of three other issues directly, these being audit reports, large loan decisions and punitive actions against senior management staff. Unlike BBG, SCB underwent some rationalisation at marginal profit making branches during the period. Qualified and retrained staff was re-posted to man the restructured banks in line with the group practice that sustained the bank prior to the financial sector reforms.

7.4.4 Change in Compensation and Evaluation schemes

SCB also responded strongly to competition by improving managerial incentives during the periods under study. Consistent with BBG, compensation schemes increased between 1995 and 2000. MDSZ attributed this change to the increased number of new entrants into the industry that informed the bank to adopt motivational measures that minimizes the poaching of the bank’s staff. In remuneration terms, SCB’s base salaries reflect each individual’s role, skills and knowledge, as well as our need to remain competitive in the relevant labour market. Base salaries comprise a fixed amount of cash, and any adjustments are limited to significant changes in job responsibility or market conditions. According to MRAA, “In order to help attract and retain the best employees in each local market, we provide employee benefits that were competitive within each of these markets”.

At the beginning of every year each executive is asked to set his/her own objectives for improved unit bank performance for the coming year, and after the first six months an interim review of performance is conducted by division heads. If deviations are found executives are asked to explain the reason and they are offered the opportunity to revise the objectives in consultation with the division chief. The final review at the year-end results in a performance rating given to each executive. The performance appraisals and rating of the division heads are carried out in the same way by the MD in most state banks. In the cases of the two new private banks the MD’s were appointed by the dominant equity holders.
7.4.5 Internal control and risk management Issues.

Consistent with BBG, SCB appears to have had an impeccable corporate governance record, as it was shown to potential investors as a successful business entity. The analysis also indicates that the bank’s internal control mechanisms may have been more effective and contributed to preventing related party transactions, asset stripping and stopping management from engaging in self-interested behaviour than in BBG. Neither the bank nor its individual directors were affected by the crisis. The case study evidence suggests that the bank was in many respects, already compliant due to a long history of good corporate governance practices. MEAS confirmed that listing of SCG on the local stock exchange did not appear to have influenced corporate governance the bank.

7.4.1.1 Loan administration and Related Transactions

Consistent to BBG, SCB maintained conservative lending policies with loan applications evaluated according to strict commercial criteria before and after the reform. For example, despite the government’s 26% equity stake in the bank and the credit directives issued by the BOG, they were able to resist most of the pressure to extend credit to unbankable borrowers. Where the bank had to comply with the state’s credit guidelines, it identified the more creditworthy borrowers within the suggested priority sectors. These were usually the largely established private sector companies which had a wide range of business activities in different industries. Where loans were made to riskier sectors such as agriculture, SCB protected their balance sheets by using BOG credit guarantees according to previous studies, SCB and BBG avoided incurring significant levels of loan losses and was generally profitable before and after its divestiture.

7.5 Conclusion

This chapter has analysed three cases (foreign banks) of banks that were established before or acquired by foreign investors after its privatisation. The three cases indicated ownership concentration in the banks ‘sponsors who were largely the foreign financial institutions. The case studies suggest that directors are professional managers only without shares in the banks and resultant good corporate governance practices such as robust internal control mechanisms and independence that may have contributed to the practices which put them on top of others in group A. The profile of the BBG and SCB owners suggested they both had foreign and local directors with requisite skills and experience to become directors in a
Historically, traditional banks have always had a separation between ownership and management. One significant difference between them was that, BBG was owned absolutely by its parent company and was not listed on GSE, but SCB was listed and have local minority shareholders. This difference in the traditional foreign banks did not introduce any difference in corporate governance practice observed in the two banks between 1995 and 2000. The new look SG-SSB is taking similar outlook after privatisation and listing on GSE.

It is an indication that the type of corporate governance practices adopted by these FOBs was different from those of the SOBs. At least at a glance, it appears the poor performance of the banks could not fully be attributed to macro-economic factors (see section 4.2) since all the banks are exposed to same business environment. While the country environment can influence the articulation and practical protection of ownership rights and the norms of transparency and disclosure, positive framework conditions are no guarantee that all companies or banks in a given framework will demonstrate strong corporate governance standards. Conversely, it is conceivable that companies operating in weak country environments transcend local practice. However, banks whose corporate governance standards are perceived to be high are generally seen as less risky than companies with low standards, irrespective of the country of domicile. May be due to the heavy investment, foreign owners who were offered tranches in privatised banking firms were more likely to demand greater board oversight, high information disclosure standards and, for reputation concerns, maintain a strict control of managers’ actions.

Unlike their local counter parts that posted mixed performance results, banks with foreign equity participation (Barclays, SCB and SG-SSB) avoided incurring significant levels of loan losses and were generally profitable. Foreign ownership proved to impact on investor/depositor protection against government interference in lending decision making which was so pervasive in the public banks before and after divestment of government shares in them. Unlike previous studies, this study did not observe any significant difference between traditional and new foreign banks.\textsuperscript{136} This might have been due to the total

\textsuperscript{136} Bonin et al., (2003), argued that, new privatised banks may not mimic their traditional counterparts in corporate governance due to their experience in the market. Thus, political objectives, poor information, and
restructuring of the board and management of SG-SSB that allowed the new controllers (mostly foreign directors) to implement fully the internal best practice without any resistance. The difference between the FOBs listed on GSE and those not listed was not clear from the study. This could be due to the fact that, the corporate bylaws and practices of their parent groups were superior to those of the local stock exchange and SEC.

These cases confirmed that foreign acquisition or direct investment in domestic bank can force local banks to operate more efficiently. This suggests that a reputable foreign bank is particularly desirable as a strategic investor when privatizing in markets dominated by state banks. It presupposes that concentrated foreign ownership is more likely to ensure the success after privatization due to the large capital involved. For example, DQQA observed that foreign owners have strict control of managers’ actions and exerted a close monitoring of their activities. This DQQA argued to due to the fact that investor’s wealth depends heavily on management performance hence had more incentives to monitor the managers to ensure that their resources were not diverted.
Chapter 8: Comparative analysis of Privatisation and 
Corporate Governance

8.1 Introduction

This section discusses the privatisation of the banks and examines how it may have affected or influenced corporate governance practices across the two ownership forms. Table 8.1 below, summarises the ownership structural changes of the five banks after the sector privatisation and deregulation. There were some similarities between the ownership structure in GCB and SG-SSB because they had a separation between ownership and management after privatisation in 1995. However, COOP remained in government hands, and suffered from continues interventions from government agents and collusion between the executive and political players. The traditional foreign banks, BBG and SCB though recorded the least changes in corporate governance practices; reporting strong corporate governance outcomes by management because of their long affiliation to the parent groups. The findings also highlight high foreign ownership concentration in all FOBs due to foreign institutional involvement. However, FOBs studied appeared to have reduced expropriation problems and experienced expropriation or poor governance issues.

Thus, foreign investor involvement in bank ownership shows that, they had more incentives to monitor the management. The differences between FOBs and SOB cases lies in whether there are constraints on managers and whether managers are controlled and/or collusion between them and political agents. Overall, the weak regulatory enforcement between 1995 and 2000 had contributed to the expropriation in SOBs, unable to minimise the grabbing hands of the government agents or executives. Thus, the degree of corporate governance practice in the banking sector depends on sound legal and regulatory environment (John et al, 2008).

8.2 Privatization and ownership structure

The method or process of privatisation is known to determine the extent of firm ownership concentration and Owner forms.\(^{137}\) It is suggested that in weak institutional environments

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\(^{137}\) For example, Megginson et al. (2002) and Bortolotti et al. (2000) show that the choice of privatization methods (i.e., public share issues versus private asset sales) determines the ownership concentration observed.
strategic direct sales are preferable to share issue privatizations (SIPs). Concentrated ownership is more likely to ensure the success of privatization as large shareholders, whose wealth depends heavily on firm performance, have more incentives to monitor the managers and ensure that their resources are not diverted. After the ownership and control restrictions were lifted in early 1990s, private involvement in banks ownership and management increased. Evidence from both categories indicates that all the banks had concentrated ownership before and after privatisation. Table 8-1 shows that, all the divested banks were strategically done directly or through the stock market. Analysis of the shareholding structure of the banks in group A had high levels of shareholding by government and its public institutions in both periods. Group B banks also shows similar concentration trends, with the foreign owners holding unto majority shares. Thus, if majority of shares were sold to strategic investors and or were sold through share issues in the stock market, the new owners may be more motivated to monitor management performance consistent with the huge investment.
### Table 8-1 Privatisation and Ownership Concentration

<table>
<thead>
<tr>
<th></th>
<th>Shareholders in end 1995</th>
<th>Shareholders in end 2000</th>
<th>Mode of Privatisation</th>
<th>Ownership concentration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GOG</td>
<td>FFI</td>
<td>PDI</td>
<td>GOG</td>
</tr>
<tr>
<td><strong>COOP</strong></td>
<td>96</td>
<td>0.0</td>
<td>4.0</td>
<td>81</td>
</tr>
<tr>
<td><strong>GCB</strong></td>
<td>100</td>
<td>0.0</td>
<td>0.0</td>
<td>51</td>
</tr>
<tr>
<td><strong>SG-SSB</strong></td>
<td>100</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>BBG</strong></td>
<td>40</td>
<td>60</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>SCB</strong></td>
<td>27.5</td>
<td>60</td>
<td>12.5</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Survey data; OG= Government of Ghana; FFI= Foreign financial institution; PDI= Local Financial institution; *Listed banks
GCB, SG-SSB, BBG, and SCB had undergone significant ownership changes (either partly or fully privatised). Such changes in the equity seemed to have had a major impact on the extent of restructuring measures carried out in some of these banks. There were some similarities between the ownership structures in most of the banks established before the reform. GCB, SG-SSB, and SCB were listed as part of FINSAP to allow local investor participation. However, the sponsors floated only up to 49% of the shares, hence in control of the banks. BBG had come under total ownership of the sponsor after acquiring the 40% shares from government at the close of 2000. The COOP public institutional ownership, as the government divested its control through corporatisation and seeks strategic investor to takeover. Irrespective of the owners, the banks were all concentrated in the hands of the state or privates investors involved.

Another governance issue was the actual owners behind the privatised bank. This is categorised into groups A and B consistent with the ownership type that emerged after the privatisation. Table 8-1 also confirmed that the government of Ghana strategically sold mainly to foreign and local institutions. Apart from the ownership concentration, identity of owners is likely to influence the corporate governance of the privatized banks. For example, foreign investors may require high information disclosure standards and, maintain a strict control of managers’ actions (Dyck, 2001). Institutional investors can also exert a close monitoring of management activities to ensure superior returns (Boutchkova and Megginson, 2000). However, the continuous state residual ownership in the banks in Group A could be a recipe for poor corporate governance. The government may pursue inefficient goals other than profit maximization at the expense of smaller owners and with lower motivation to monitor than a private owner (Vickers & Yarrow, 1991). The government interferences may increase the possibility of expropriation of other owners. For example, top SOB managers interact extensively with sector ministry and party officials in deciding top management structures, such as candidates for management, BODs, and compensation schemes (Xu and Wang, 1997).

Group A banks posted mixed results between 1995 and 2000. Apart from GCB, that experienced some changes to its poor corporate governance practices, CCOP was generally poor over the study period. Despite the pre-FINSAP II regulatory changes in 1989 which empowered professional managers to autonomously make business decisions, the study evidence indicates significant insider loans in SOBs between 1995 and 2000, which had been

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The case study evidence indicates ownership concentration across all the cases before and after the reform.
detected by the BoG after the harm, had been done. For example, COOP continued to experience similar poor loan administration and anti-banking practices at top management level even until its liquidation in 2000. The case of GCB shows that state ownership may not always be a bad thing, when other minorities are well represented on the board and when government is committed to good governance (Arun, 2004). Concentrated ownership may give incentives to willing owners to monitor management if that would achieve corporate goals.

In summary, ownership structures observed depend on whether the banks entered into state-private partnership or partially divested. It also depends on whether the dominant owner is government or private investor (foreign or private indigene). In this regard, a number of deductions can be made from the findings on the ownership structure and forms of the case study banks. Firstly, the cases indicate that despite all banks having ownership concentration, this concentration may not necessarily be a problem. This is because only the banks with state ownership witnessed collusion between management, elements on the board and political players (cartels) seem to have suffered corporate governance weaknesses after reforms. Government appointed bureaucrats and political favourites as MDs who indulged in asset stripping, fraud and other irregularities with the support of the counter parts on the board and government. Second, the control by the insiders led to ineffective boards and weak internal controls which in turn resulted in frauds, insider transactions and abuse of depositor’s funds in the affected SOBs. Third, the strategic privatisation process allowed private ownership up to 100 per cent resulting in block share ownership or concentration. The deregulation of share ownership can be exploited, as in the case of SOBs (COOP and GCB), a single shareholder master-minded a scandal in the banks. It is fair to say that, the inability of the central bank to clearly define fit and proper people in bank ownership and management was a big problem. People with dodgy characters owned shares and or managed banks within the study periods to the disadvantage of minority owners and tax payers. Another conclusion which can be drawn is that for the regulations to have a positive effect in holding free controllers of banks in check, this will depend to a large extent on how they are enforced. As shown in the case of SOBs, weak enforcement surrenders merits of the regulations.

Having taken advantage of the sector privatisation, foreign investors (Group B) acquired the government’s shares in the three banks and reported good corporate governance practices.

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139 Good political governance can be considered as a prerequisite for good corporate governance (Oman, 2001, p. 31).
within the study period. Thus foreign involvement in privatisation was found to have positive impact on corporate governance of bank. For example, none of the traditional FOBs suffered from any corporate governance weaknesses before and after acquisition of the state shares in the banks. Even the former SOB (SG-SSB) registered good corporate governance practices between 1997 and 2000 may be because of its privatisation to Societe General. This is probably due the strong corporate governance practices enforced by the foreign investors, without which they will not commit themselves financially. The new owners have the incentive to monitor the performance of the executive. For example, SG-SSB with poor pre-reform corporate governance record changed drastically after it was acquired by the SG group.

It was observed that precluding state involvement in management or complete privatisation (separating ownership and management) was the right thing to do. Issues of corporate governance were eroded because there was no regard for the distinction between the shareholder, and the company as a separate entity before the privatisation. In the absence of agents of government after 1996, the bank genuinely under took top management and bank restructuring and adopted new governance practices consistent with the new owner’s principles. MEYK argues that a pure separation of roles was necessary to curb practices such as insider transactions and possible poor quality directors on board. However, in exception of traditional SOBs most of the directors of other banks were independent and had no interest in the banks. The qualification of the government appointees on SOBs could be seen as the desires of the government to let the banks operate as purely economic units, and not political tools. However, the actions (responsibility shirking, collusion and looting) in the late 1990s negate the supposedly genuine efforts of government. The other foreign banks continue their conservation style consistent with their parent group cultural values.

8.3 Changes in Board and Top management features.

Privatisation is expected to trigger restructuring or changes to the BOD and executive team to ensure more effective monitoring and management respectively. The top managers in the SOBs at the time lacked the necessary calibre of people required to run bank business. For example the previous two chapters gave an idea that, SOBs were run by bureaucrats who did not have the relevant experience and qualifications before 1995. Top managers had qualifications consistent with their public service counterparts, and hence appeared to lack the financial leadership and experience to effectively manage the affairs of the bank in 1995.
The result further showed that appointments were based on political expediency prior to reform. As result quality of top banking officials were not competent enough to run bank business, leading to the losses observed after 2000. In addition to the lack of independence of directors, vested interest of political elites, inadequate time spent on board issues, and their lack of expertise to contribute to deliberations reduced the board into rubber stamping unit in SOBs before the reform. The results is summarised in the table below (Table 8-2).

**Table 8-2: Change in Board Director Characteristics and Executive Compensation.**

<table>
<thead>
<tr>
<th>Board Features</th>
<th>State Owned Banks</th>
<th>Foreign Owned Banks (FOBs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>COOP</td>
<td>GCB</td>
</tr>
<tr>
<td>Politicians/bureaucrats on board</td>
<td>◊</td>
<td>↓</td>
</tr>
<tr>
<td>Number of outside directors</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Foreign director Participation</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Director qualification/expertise</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Meeting rate and Participation</td>
<td>↔</td>
<td>↑</td>
</tr>
<tr>
<td>profit Orientation</td>
<td>◊</td>
<td>↑</td>
</tr>
<tr>
<td>Board Appointment</td>
<td>↔</td>
<td>↑</td>
</tr>
<tr>
<td>Board Business Decisions</td>
<td>↔</td>
<td>↑</td>
</tr>
<tr>
<td>Management Features</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management/Key staff expertise</td>
<td>↔</td>
<td>↑</td>
</tr>
<tr>
<td>Staff training and development</td>
<td>↔</td>
<td>↑</td>
</tr>
<tr>
<td>Incentive base remuneration</td>
<td>◊</td>
<td>↑</td>
</tr>
<tr>
<td>Management Evaluation</td>
<td>↔</td>
<td>↑</td>
</tr>
</tbody>
</table>

Source: Authors Compilation based on questionnaire survey and interviews.

**Key:** ↑- Increased; ↔; same; ↓- decreased; ◊- no idea; and NA- Not applicable
The result showed changes in board of director and top management changes reflect the ownership forms that emerged from the privatisation. It shows that, privatised banks experienced significant changes, with SG-SSB the fully divested bank reporting the greatest change in most of the dimensions studied. The traditional FOBs reported minimal change in corporate governance issues studied. This might be due to their history of good corporate governance principles (Dyck, 2001). Whilst the resistant to change in the traditional SOBs could be due to the entrenchment behaviour of the old top managers and state agents that remained at post and continue their old ways of doing things. If top management of the firm remains unchanged after privatization, managers with long tenures are more likely to be concerned about their job security and likely to initiate entrenchment efforts that may thwart restructuring process (Tosi et al. 1997). The following paragraphs discuss the similarities and differences in the board, management and compensation schemes of the cases.

8.3.1 Composition and Independence

Directors need the necessary independence and capability to run the affairs of the bank. Table 8-2 shows the changes in the proportion of outside directors in most banks interviewed. Common to all the cases was increased number of outside directors on the board between 1995 and 2000. This observation was a key development that can potentially increase independence of boards and make them more effective in pursuing the interests of bank and stakeholders instead of just the interests of dominant shareholders. The number of politicians and bureaucrats also decreased drastically in the privatised banks, but remained unchanged in the traditional SOBs. Increase in foreign directors was more pronounced in the fully privatised bank (SG-SSB). Replacing the often politically-appointed manager of the SOE with a professional businessperson should give them autonomy and ability to improve management performance. It was obvious from the table that COOP showed limited autonomy at the end of 2000. That indicates MD had ultimate control of most bank decisions whilst the board was often used to rubber stamp management decisions (Mensah, 2002).

8.3.2 Qualification, Knowledge and Expertise.

Consistent with the outside director, the qualification of board members in all SOB and non-traditional FOB cases increased between 1995 and 2000. This may be due to replacement of under-qualified directors by others with objectives more aligned to profit maximisation, and
new monitoring mechanism shareholders. Though the traditional SOB (COOP) reported increased qualification; the areas of expertise of most of them were not relevant to banking business between 1995 and 2000. The predominance of agency theory within financial education and governance practice urge directors to be familiar with the best practice and act accordingly (Surendra 2010 and Weaver 2006). The privatised banks (GCB and SG-SSB) had genuine increased in qualification and competence due to replacement of politicians and bureaucrats on the board before their privatisation.

Closely related to the qualification was their participation in decision making. Table 8-2 also shows banks had undergone some changes in terms of board meeting frequency and general director participation. This confirm reports that, average attendance rate significantly higher than what pertained before 1995 in the discussions in chapter 6-7. The increased board meetings may have been due the increased number of board committees in most banks. The increased board meetings and director participation in their banks potentially and practically has made boards more active and vibrant, though mixed views were observed in COOP. It was found elsewhere that meeting in state enterprises were erratic and less frequently attended before the reforms (Mensah, 2002). Problems arose because management in the traditional SOB had limited competence in assessing the risks involved in the decisions they made, although they had freedom of action to make the wrong decisions due to inadequate control systems and information asymmetry (Beck et al, 2003).

8.3.3 Objectives and Functions.

One important objective restructuring was to allow bankers rather than bureaucrats to decide whom to employ, at what wage rate, where to open branches, and other day-to-day banking business operations. The general increase in board autonomy did not lead to increase in independent of the board function of all the banks. The result showed that, while privatized banks changed their mindset on their corporate objectives, the traditional banks continue to perpetuate their old corporate goals. For example, the GCB and SG-SSB after their privatization changed their multiple corporate goal stances in 1995 to profit

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140 For example, Lopez-de-Silanes (1997) recognize that the existing SOE management may lack the appropriate human capital to effectively guide the privatized firm in the new, competitive market.

141 Bankers should make their own decisions, guided perhaps by general rules, but making inherently discretionary decisions like these for themselves so that the responsibility for bad outcomes is unambiguous (Williamson, 1998).
maximization motive in 2000. Privatization can instigate new or existing top managers to inculcate the objectives of the new owners.

Table 8-1 evidenced that, boards of the banks interviewed appear to exercise objective and independent judgment in most cases. In the course of interviews, most banks have committees, responsible for appointing new and or replacement of bank directors. It was observed from the interviewed that, appointment was made on merits and consistent with the banking rules after 1995. However, appointments and business decision making in practical terms significantly varied from bank to bank.

Thus, apart from COOP most bank boards proposed the potential candidate for the consideration of AGM in the other banks studied. This was done mostly through board sub committees and or executive committees. For example, in GCB and FOBs, vacancies were made available for the public to be represented in line with the listing requirements. The appointment process was much more opaque in non-listed state banks that are virtually owned by the government. In COOP, there was no transparency in the procedure of selecting the board members. It is normally the ruling government (through the Minister of Finance) who makes the selection. The interview indicated that the political affiliation is the primary, and in the majority of cases, the only basis on which people are appointed as directors the traditional; SOBs. The political alignment of board members is required by ruling parties as they assume loyal boards will help keeping a strong grip on the bank.

The experience of GCB, a partially owned SOB, stands out in contrast to the COOP. Many effective management practices similar to those found in FOBs were practised in GCB. This observation might have been due to the fact that, the bank is listed on the GSE and had to meet to listing requirements. The banks In spite of its large size of GCB, management performance improved and have been very profitable over the study period, ahead of its foreign compatriots (see section 4.7). Apart from what experts called special strategic national decisions, applications were approved by the board, and any interest re-scheduling and write-off of bad loans must also be approved by it. For example, holding between 16 to 32 meetings a year is indicative of the board’s need to meet often to process a huge number of requests it receives from the customers. Consistent with the pre-reform era, the bank was not free of the pressure to lend to politically favoured borrowers, and therefore indirectly charged to promote objectives set by political forces. The increased number of outside directors did minimised government intervention between 1995 and 2000. MSMD argued that GCB is operationally autonomous and was able to maximize expected profits because
loans were extended to those borrowers who offer the best combination of risk and return. By depoliticizing banking operations, privatization separates politics and economic activities, thereby keeping the state out of day-to-day business of bank.

By and large, the limited changes in the traditional FOBs studied (for example, BBG and SCB) were found not to be the result of the bank privatisation or buyout, but rather the group culture based on that of their parent financial company. The way things were done relate mostly to that of their parent groups. Indirectly, however, it did influence all FOBs by the licensing reforms that enhanced deregulated ownership. In SG-SSB for example, the total divestment of government shares in the firm made their relation with government extremely loose. As explained by Nam (2006) provided that there are effective mechanisms to check agency problems, the effectiveness of an executive is closely associated with the discretion available to him/her, which is in turn, determined by the operating environment of the banks. The case of SG-SSB practically confirms that management autonomy from government or dominant owner increases the role of the senior managers in determining the organizational outcomes. The performance of SG-SSB and other privatised banks were hugely influenced by the absence of dominant owner intervention.

In traditional SOB, the increased in non-executives on the board did not remove intervention of government agents, though officials appointed were said to be qualified for the job. Frequent government interventions in state banks severely weaken management autonomy. The traditional SOB resisted genuine restructuring during the period. However, privatised SOB with significant private participation after privatisation (GCB) carried out extensive changes in board and management and organisational levels, may be due to much more separation between ownership and control. Generally speaking, privatisation of ownership and or control, gave greater autonomy to most banks in operational matters; the suggestion is that the role of the boards of directors has become more important. Generally, the boards ensured that banks are run with integrity, comply with all legal requirements, adhere to regulatory standards and conduct its business in accordance with high ethical standards between 1996 and 2000.
8.4 Change in organisation and Management Features

The importance of changing human capital (directors and managers) has been stressed in literature, because, it serves as incentive to maximise the privatised firm’s value. With the dwindling government subvention, companies may be moved to engage the right skills and allocate resources more efficiently.

Table 8-2 also illustrated changes of management features across ownership forms between 1995 and 2000. Unlike the board, only the privatised banks reported increased management features studied. As part of restructuring measures managers of SOBs were given forms of training to change their way of thinking between 1995 and 2000. However, the other SOBs did not implement any significant changes in the management features. This was evident in the COOP bank. It seems that top management in these SOBs failed to adjust their ways of thinking and lacked a genuine motive to change. If old managers were allowed to be at post with their old mind-set and behaviours, it may pose danger to the banks’ health.

Apart from the traditional SOB and FOBs, all the privatised banks experienced further restructuring privatisation between 1997 and 2000 to ensure the removal of the deadwoods and inject fresh, qualified and those with the business oriented mind set (Figure 8-1).

![Fig 8-1 Post privatization staff restructuring](image)

142 New structures may allow for more efficient monitoring of managerial discretionary behaviours and can substitute for weak corporate governance mechanisms (Barberies et al, 1996).
Unlike the traditional SOBs and FOBs, the privatised banks experienced staff rationalisation in an attempt to reverse the pre-FINSAP inefficiencies. Figure 8-1 above indicates changes in staff force as result of rationalisation and branch closes as part of the reform in 1997. There was a drastic reduction in staff in GCB and SG-SSB. The traditional SOBs and FOBS registered limited changes. The observed branch and staff ‘pruning’ which will hopefully make restructured banks more efficient and profitable. The high pre-privatisation staff number might have contributed to the high inefficiency observed before the ownership change in the bank. For example, SG group initiated organisational structuring immediately after acquiring more than 50% ownership in SG-SSB. Some of these staff or workforces were removed either through attrition, or retirement or voluntary retirements. Redundant employees were absorbed by new businesses in the financial industry, which were spreading as a result of the sector liberalisation. Subsequently, the new workforces were inculcated with the, mind-set of healthy competition. As such, they were asked to compete with external applicants for any job opening in the bank. For example, between 1997 and 2008 when bank was totally privatised the staff numbers were further reduced from 1472 to 900 in 2000. It is also expected that, there will be branch and staff ‘pruning’ could make restructured bank more efficient and profitable. Lack of change in non-privatised or fully owned banks, might be due to the continued use of old hands with similar top management qualities as appertained between 1995 and 2000. The continuity in top management from SOE to privatized firm reduces the likelihood of organizational restructuring, since managers may lack the skills or knowledge to introduce initiatives that enhance firm performance (Djankov, 1998).

It is clear that the lack of change in traditional foreign banks in group B studied (BBG and SCB) was the result of their pre-reform superior corporate governance, based on that of their parent group. Indirectly, however, buyout of government did influence all banks by the licensing reforms that allowed local and foreign ownership of these banks up to 100 per cent. In the case of SB-SSB, complete divestment made their relationship with government completely non-existence. This made SG-SSB to cultivate a different identity, consistent with the other FOBs. As explained by Nam (2006) provided that there are effective mechanisms to check agency problems, the effectiveness of an executive is closely associated with the discretion available to him/her, which is in turn, determined by the operating environment of the firm.
8.4.1 Change in Compensation and Management evaluation Schemes

The result showed that Incentives Management emerged during privatization in most banks between 1995 and 2000. Both the FOBs and the GCB reported increased in incentivised remuneration. Salaries were used for top managers of all the banks interviewed in 1995 and 2000. However, in COOP top managers and the senior managers were remunerated according to a public service system during the study period. This system puts great weight on seniority and age limit on the abilities required by the posts. Also, monthly bonuses were issued generally as a routine, without discrimination among posts at the same level. In addition, the top managers laid down in the management contract. The levels of such bonuses for the director are set up by the sector ministry in other SOBs.

In the case of management evaluation, it appears neither the board nor the ministry took the evaluation seriously in COOP between 1995 and 2000. For example, there were no established year-end bonuses for managers, while bonuses were issued as long as the banks as long as the bank’s financial condition is allowed. The bonus system, which was design to link management remuneration with the performance evaluation results, was expected to provide performance incentives to managers. However, as reflected in the discussion, the effect of these incentives measures is limited by the imbalance between managers’ and management pay remained very loosely connected to individual performance in the COOP.

Deliberate evaluation systems were also put in place to keep the management and key staff on their toes in all group B banks interviewed in the two periods. In SG-SSB, after its takeover by foreign entity, the evaluation has been rigidly enforced for all the executive and middle managers. In order to obtain or fulfil their business (sale and loan recovery) targets, the management had an effective control and remuneration system, similar to BBG and SCB. All executive signs an annual task agreement, which specified the main business and management goals to be achieved within a specified period. For example, every month the executive signs agreed monthly task schedule with the CEO, where annual tasks and targets were divided into monthly ones. Unlike traditional SOBs (such as, COOP) where monthly targets for the various departments are only used in worse scenarios, this is not the case in the privatised and or FOBs. Consistent poor performances were punished with summary dismissal in most cases. Similar systems were in place in BBG and SCB. In addition to using bonuses or salary reviews to reward good and to punish bad performances, middle managers could be removed. Due to incomplete market system and immature market mechanism, SOB managers neither get the pressure from the stock’s price in the market, nor
worry about possible takeovers; however, the accountability and transparency of the compensation mechanism in Ghana’s listed companies have seen vast improvement despite the little impact on organizational mechanism (Mensah, 2002). Unlike their counterparts in SOBs, managers in privatized banks faced the threat of dismissal if they under perform.

8.5 Corporate governance quality, internal control and Risk Management issues

As at end of 2000, some pre-reform problems in the internal control system of SOBs were evident, the first being that no audit occurs in the bank’s head office, yet many important decisions were taken there mostly involving big loan approvals, related transactions etc., and the absence of any regular audit makes it easier for head office personnel to engage in fraudulent activities. It is evidenced in the cases that the regulators failed to stop expropriation by management and the board members over many years in SOBs. Although the government allowed COOP and some other two to be liquidated in 2000, the delayed action caused the loss of capital injected when the bank was re-capitalised. In this regard, indications are that there may have been lack of political will on the part of the supervisory agencies to exercise strong supervision since the indigenous banks were a significant part of the government’s drive to indigenise the economy in a market which was previously dominated by foreign players.

The findings also suggested that the weaknesses of the existing regulatory enforcement created incentives for controlling agents to expropriate from other stakeholders. The failure by the regulator to proactively discipline bank violations and fraud in the SOBs and the failure to secure a conviction against directors against whom these allegations were made suggests weak regulatory enforcement environment. Whilst the FOBs were equally subjected to weak regulatory environment between 1995 and 2000, they ignored government requests on direct lending and had competitive advantage over the local banks. This result suggested that the presence of foreign financial institutions reduces the likelihood of banking crises. The corporate governance weaknesses observed in SOBs resulted in problems such as insider lending, frauds and abuse of depositors’ funds, and political lending.

8.5.1 Legal and Regulatory enforcement in the banking sector

The regulatory response to the corporate governance problems in SOBs also raised several issues. Firstly, it reveals some extent of regulatory forbearance in that the regulators didn’t act quickly or were unwilling to enforce or address the weaknesses identified in the banks.
Secondly, delays in the court system always associated with delays and hence cause fatigue in trying to deal with corrupt and theft cases involving elites in government. It is not being dismissed, none of the directors within SOBs were held legally accountable for the various allegations of fraud or abuse of depositor’s funds. This raises questions regarding the central bank’s preparedness to deal with the corporate governance problems within SOBs. MBDM insist the central had caused their arrest, but the judicial system is fraught with inconsistencies and foot dragging, hence the bank of Ghana had to pursue them only after change in government.

Second, the case study findings have highlighted lax regulation and supervision of the banking sector, weaknesses in enforcement and regulatory forbearance. Enforcement of the regulatory provisions by the central bank has emerged as a key issue. In particular, the case study evidence suggests that the regulator failed to stop expropriation by cartels. The case studies also highlight regulatory forbearance by the central bank which could have increased moral hazards in all the local banks. The BoG was slow to act in the case of SOBs, in the face of solvency problems in the banks. In NIB, evidence of connected lending and abuse of depositor’s funds may not have been addressed due to political pressure since the bank had extended substantial loans to politicians and unknown companies. In fact, the character of some of top managers of the banks was nothing close to those that are fit and proper championed by BoG. BoG’s failure to address these weaknesses could have led to a belief that it would not close them due to the government’s policy of promoting indigenous businesses or development projects. MBDM argued that the 1989 law was unable to constraint the controllers because most of the directives were purely unenforceable and BoG and the quality of the managers cannot be defined without the national security doing the due diligence-before appointments.

Bank of Ghana’s inability to deal with the corporate governance issues of SOBs between 1995 and 2000 was very compelling. It also questions the ability of the state prosecution and the judicial system to protect private rights of the citizenry. The Relationship manager attached to National Investment Bank (NIB) recalled that the credit procedures such as documentation for these transactions and securities were inadequate and most cases not attached. MPEC, an examiner with BOG observed that, irregular or fraudulent transactions escaped them because information on the common operations was fairly good, but relating to these transactions was only made available when new government came to power. MPEC argued that, the banks had been submitting the situation report regularly as mandated by
the BOG. Though he concedes that some huge facilities were granted to some top men on the board and in government, BOG could not do much since the law placed no cap on individual loans and could not act appropriately. The head of MBDM observed that, weaknesses in the legal system had been the reason why the central bank failed to secure convictions despite clear evidence indicating that some of the directors had engaged in fraudulent activities using depositor’s funds. MBDM argued that adjournment of these commercial crimes were unbearable, “in fact, Go come Go come resulted in prosecution fatigue by the regulatory agents and law enforcement agents”. This finding confirmed that cartels can undermine the credibility of investor legal protection when the state continues to hold shares in a privatised firm. Privatisation without supportive arrangements for proper regulation and supervision can easily lead to anti-social behaviour by bankers, of the forms referred to as "looting and gambling, as it to stop the ‘grabbing hands’ of the free controllers of the bank (Dyck 2001; Doidge et al., 2009). It presupposes that, under weak regulatory enforcement, government expropriation and political benefits will be typically high. Unsurprisingly, good political governance can be considered as a prerequisite for good corporate governance (Oman, 2001).

8.6 Conclusion

The reform opened up the financial sector, facilitating concentration of ownership and or control in government and private hands. A partial privatisation of banks results in continues indirect control of the government. All the SOBs analysed in group A cases and SG-SSB bank in group B were licensed long after the traditional FOBs (BBG and SCB) were established in the colonial era. Ironically the former either collapsed or insolvent prior to their privatisation amidst allegations of poor corporate governance practices, asset stripping and fraud by the managers before and after FINSAP. Thus, the sector privatisation and deregulation did not limit ownership concentration but, appeared to have maintained the pre-reform pattern of insider concentration. The reasons for this concentration of ownership might been due to government’s preference to offload its shares to reputable foreign investors that can take total control of the banks to avoid post reform theft of their assets by outsiders. Those banks in state hands however suffered from poor corporate governance practices, with controlling

143 According to Mr Williams, there were a lot of serious unreported irregularities in the public banking sector because the central bank knows how it will end. It took change in government in most cases to bring some of these problems out. He however, confirmed previous respondents that, the 24hr surveillance through the attached relationship managers had minimised these occurrences in check REAL TIME.
agents involved in several corporate violations with no legal action taken within the study period.

Non-divested SOBs continue to have somewhat pre-1995 type top management and government representation and registered poor corporate governance practices. The banks continued to operate in same way prior to the reform; their relationship close relationship continues to prevail until their demise and or further crisis late in the 1990s and early 2000s. Administrative interventions impacts on the appointment of top managers, the business objectives of most of the banks and in important investment decisions. Soft bank loans continue to flow into the banks, in spite of rising debts levels in the banks in the 1990s. The prevalent paternalistic relationship between the state and the banks has protected most of the banks from full effect of the market competition and therefore, has made them unable to develop the needed resources to gain advantage in the market environment. As a result, the banks still rely mainly on bureaucratic mechanisms for coordinating their activities. Political objectives, poor information, and principal/agent problems can compromise SOBs in ways that keep it from performing as well as private enterprise.

Institutionalized structures and practices resistant to real change might have caused top managers to be overly concerned with rules and regulations, conservatism, and techniques that frustrated bank restructuring observed in some of these SOBs. Previous studies confirmed that most SOBs have bureaucratic rules (concerning seniority, pension and salaries) that encourage conformity (Botelho and Addis, 1997; Merton, 1957). Organizational structures in the privatised banks including GCB provide changes in top management behaviours that increase monitoring effectiveness and help identify an individual manager’s performance. Scholars argue that thorough restructuring of structures allow for more efficient monitoring of managerial discretionary behaviours and can substitute for weak corporate control mechanisms (Williamson, 1975). The lack of adequate monitoring of these politically-oriented managers/bureaucrats by government without the necessary incentives to engage in active monitoring (Vickers and Yarrow, 1991) will likely discourage risky investments, thus hindering or delaying management performance improvements (Boubakri et al., 2008).

On the contrary, the divested banks (GCB and SG-SSB) experienced further changes to these structures after the divestment, making them more efficient as reflected their management performance prior to the 2004 banking law review. While GCB (partially divested) registered a more study growth in the late 1990s, the case showed that the success of the bank was
due to a more independent board that was fairly represented by the minority shareholders and the public, consistent with the GSE listing requirements. It presupposes that the board for the divested bank with less government functionaries is more likely to take more objective decisions and monitor business decisions than the non-divested firm, unless the government is committed to allow the firm to operate as a business entity. Constraints and disciplinary effects on banks can come from stock exchanges. The volatile macroeconomic environment has negative impact on profitability and efficiency of the banking sector. The change in ownership and board could have been the reason for the change in the corporate governance in the privatised banks between 1995 and 2000.

The case study evidence lax regulation poor surveillance, regulatory forbearance, and weak regulatory enforcements in the SOBs studied. There was no evidence of increased incentive or improved principal agency relationship, which could lead to higher efficiency. Unlike the partially privatised (GCB), there appears to be no real difference corporate governance practice in SOBs. There is no clear defined owner(s) of the SOBs equities or shares; privatisation has not solved the problem of expropriation faced by the minority shareholders and or the tax payer. One result is that government agencies or governing elites tend to continue to intervene extensively in bank business. There was no obvious distinction between the behaviour of the reformed SOBs and the non-reformed ones of the 1980s explained in chapter four.

These observations suggest, regulatory supervision and enforcement were not properly done and collusion between the controllers and supervisors continued with impunity. The existing regulatory framework thus failed to limit management/political players of the controlling agents in SOBs resulting in corporate governance weaknesses before and after 1995. The lax regulatory environments failed to promote firm-level governance which was needed to control for agency problems between 1995 and 2000. By contrast, post-privatisation stricter bank regulation signalled a threat of action in the event of managerial or monitoring failures, this appeared to have encouraged effective monitoring by the board under strict bank regulatory regimes. Thus, efficiency of regulations largely depends on how they are enforced. The 2004 law appears to have reversed the poor sector corporate governance issues that bedevilled the banking sector, by addressing the weak internal control systems. A strong regulation regulatory enforcement of banks is important in countries with weak institutional mechanisms particularly in developing countries.
Chapter Nine: Conclusions and Recommendations

9.1 Introduction

In Ghana, the banking sector experienced major changes since the FINSAP between late 1990 and early 2000, under the 1989 regulatory framework. The sector expanded due to privatisation and the entry of a significant number of foreign and private individual banks in a market previously dominated by state banks. The privatisation component of the reform was intended to divest government control and/or ownership from the banking sector. However, the sector continued to experience government interventions on SOBs resulting in banking crisis that collapsed three banks and caused widespread irregularities and corruption after the reform. Following this crisis, the central bank implemented banking law 2004 meant to regulate internal and external governance mechanism of the banking sector. The issues addressed by the banking law include ownership, management, and regulation of banks. This study has explored the effects of privatisation on corporate governance in Ghanaian banks. The scope of the study covered the commercial banking sector, with a specific focus on banks established before the banking sector reforms (FINSAP). The time of establishment of banks had been considered as very important.

The main Research objective was to analyse how corporate governance of Ghanaian banks has changed since the private sector privatisation (under FINSAP III) between 1995 and 2000. Four research questions have been used to guide this analysis. The research sub-questions are restated here as follows;

i. What was the state of corporate governance before the sector privatisation?
ii. How did the states continuous residual ownership affect corporate governance of banks?
iii. How did foreign investors’ involvement in privatisation affect corporate governance of banks?
iv. Did the two ownership forms affect the internal control and risk issues differently?
The evidence presented in this study revealed ownership concentration, increased foreign institutional ownership and local institutional ownership across banks between 1995 and 2000. The empirical evidence highlighted differences in corporate governance between banks with government residual ownership concentration and those with foreign ownership concentration. In this regard, privatisation, ownership structure and forms had a considerable change effect on corporate governance. In SOBs, politicians and bureaucrats appear to have had the residual right of control over decisions, privatised banks and/or foreign bank managers acting on behalf of shareholders had this right between 1995 and 2000. In summary, the analysis from the empirical chapters on ownership structure established that:

I. There was significant ownership concentration in the Ghanaian banking sector before and after the privatisation across all ownership types may be due to the method of privatization (strategic sales of shares) and the deregulation of bank share ownership of individuals and institutions up to 100%.

II. All privatised SOBs or state-private partnership (ownership or control divested) that were previously classified as fully owned state banks were considered to have insider ownership concentration, due to the government long relationship with the banks. Findings from the questionnaire survey chapter indicated that government strategically divested its shares and retained significant shares in privatised banks. Although there was a reduction in the number of banks with government ownership, the study findings indicated that SOBs were still under the ultimate control of the government or public institutions. The strategic sales to the private sector also resulted in the concentration of the banks in the hands of the private owners (indigenous or foreign investors).

III. The change in ownership type appeared to have been indirectly influenced by sector privatisation policy. It was evidenced from the study that changes in ownership structure were not due only to the direct divestment of state shares. However, reforms such as the deregulation of bank ownership, establishment of GSE and various restructuring measures adopted were all indirect privatisation policies adopted by government that contributed to foreign and local private share ownership during 1995 and 2000. The state of corporate governance in traditional SOBs and privatised ones was the same in 1995. This however changed after divestment of government’s shares in these banks. The analytical chapters generally points to change in corporate governance practices between
the two periods mostly in the completely privatised banks, followed by the partially private banks, with minimum change in traditional FOBs. The state banks with little or no equity divestment showed virtually no significant change in corporate governance.

IV. Pre-privatization corporatisation and restructuring have not been rewarded, and the retained top managers in traditional SOBs were hesitant to perform necessary changes or behaviours. For instance, COOP with very high levels of state ownership were ineffective may be due to agent risk aversion and lack of experience with the liberalised free market practices. These top managers and key staff created problems owing to management's incompetent behaviours or misplaced efforts, resulting from inexperience in market practices. Moreover, these SOBs managers appeared to have increased entrenchment activities to avoid organizational restructuring activities that could displace them and their colleagues between 1995 and 2000. For example, notable entrenchment and expropriation tactics used by these managers were the collusion between the board and executive in appointment business decision making. Finally, reports on developing economies underscore the inadequacy of debt and bankruptcy mechanisms coupled with weak external market (see section 2.5). Consequently, these mechanisms cannot mitigate agency problems as they did in the case of insider or state ownership in developed economies.

V. In the case of compensation and evaluation of management, the study confirmed directors' monitoring of managers' behaviour and management incentive schemes emerged during GCB and all FOB's. For example, compensation was seen to be tied to observable measures of firm performance in these banks. By tying part of managerial wealth to shareholder wealth, the incentive system created alignment between management and shareholders. Remunerations in the traditional SOBs were not linked with performance. Thus, the top managers seemed not be threatened by loss of job or any form of discipline from government for poor performance.
VI. There were corporate governance weaknesses in all the SOBs before and after the privatization, which resulted in problems such as insider lending, fraud, and abuse of depositor’s funds (less so in GCB). It would appear that insider ownership control rather than ownership concentration was the cause of the weaknesses in corporate governance. The study found continuous government ownership and interruption, minimum restructuring and persistence of old corporate structure, compensation schemes and limited management evaluations as the weaknesses in most SOBs. As a result, corporate governance weaknesses such as poor internal control systems, poor risk management frameworks and weak board structures abound in these banks between 1997 and beyond. These weaknesses led to problems such as related party transactions, frauds, abuse of depositor’s funds and engagement in over-expansion. Even in the listed SOB, the activities of cartels led to collusion and fraudulent practices during the study period. Privatised banks in the foreign control reported stronger corporate governance structures before and after their acquisition of government shares. In the traditional SOBs, the board of directors of SOBs were dominated by members who were appointed bureaucrats and politicians in 1995 and 2000, which compromised their independence and capacity to effectively monitor the executive directors from engaging in tunnelling activities. The prevailing legal system was unable to make any breach of the banking rule very prohibitive and the central bank was faced with weak enforcement capability during the sector privatisation era.

VII. Unlike, the banks with residual state ownership, fully privatised banks developed much more internal governance mechanism. Privatised FOBs studied registered no irregularities in top management between 1996 and 2000. FOBs had reputation and experienced in the banking business and usually require high information disclosure standards. They maintained strict control of managers’ actions and also exert a close monitoring of management activities to ensure superior returns (chapter 4) before and after the reform. Even the former SOB (SG-SSB) experienced no weaknesses after privatisation. This confirms that, when majority shareholdings were sold to foreigners, corporate governance weaknesses were not affected by the pre- and post-privatisation corporate governance weaknesses.

144 The foreign banks or banks with foreign equity were not affected by the pre- and post-privatisation corporate governance weaknesses.
improves. Banks with large foreign investor ownership appeared to have reduced expropriation problems in contrast to the state continuous ownership of SOBs.

VIII. The study also looked at the effect of lack of appropriate regulatory reforms during the privatisation period. The findings on this issue indicate the importance of the legal and regulatory environment in liberalised or privatised banking sector. Evidence from the case study chapters highlighted weak enforcement of the regulations, poor supervision, regulatory forbearance and a deficient legal system in SOBs between 1995 and 2000. Traditional FOB and the former state owned bank that was totally divested reported no corporate governance weaknesses after its privatisation in 1996. Whilst it was the intention of the law to tackle agency problems between insider controller (controlling agents) and other stakeholders, the pre-privatisation regulation 1989, paid insufficient attention to another type of agency problem. The empirical findings indicate weak and lax enforcement of the rules by the regulators. Poor enforcement of the regulation as reported by the cases negates any merits of the pre-privatization (1989) regulations. The corporate governance problems experienced by the banks between 1995 and 2000 can partially be attributed to the lack of robust legal and regulatory enforcement across banks. The new regulations, which set a new standard on the quality of bank owners, managers and internal control system, appeared to be effective in tackling corporate governance weaknesses in most banks after the study period. From chapter six, it is noted that the regulatory environment between 1995 and 2000 was not conducive for sound banking operations. It was found that privatisation increases the severity of agency problems in the SOBs and the need for more efficient governance structures was necessary. Weakness of the regulation and enforcement between 1995 and 2000 was viewed as a major factor, contributing to the failures of the public banks. The legal and regulatory systems cannot prevent all bank failures, but a strong regulatory enforcement should provide restraints against widespread mismanagement which lead to post privatisation corporate governance weaknesses witnessed. The reduced corporate governance weaknesses observed after 2004 could be partially due to the much more rigorous 2004 banking law, onsite surveillance by attachment of
permanent supervisors from the BoG to each bank and the central bank’s increased autonomy in operations and resource generation.

9.2 Sub-Summary

The results on ownership structure indicate that residual ownership in banks was potentially the greatest source of corporate governance weaknesses experienced. This is because banks under government appointed management or bureaucrats are in a position to engage in risky actions, self-interested or opportunistic behaviour due to poor monitoring. These state banks resist or engaged in minimum restructuring that will bring in competent and independent minded individuals into management. This may explain why state owned banks with state residual ownership were at the centre of the corporate governance problems between 1995 and 2000. With the continuous state ownership in SOBs, the controlling agents had opportunity to meet the personal objectives with limited monitoring oversight.

The empirical analysis in this study has revealed ownership concentration in all the banks, regardless of ownership types. Literature on ownership concentration based on the agency theory suggests that the concentration of ownership may be an effective approach to controlling the agency problems between management and shareholders caused by the separation between ownership and control. The empirical evidence however, indicates differences between corporate governance practices in SOBs which reported insider ownership concentration and the banks which had foreign outsider ownership concentration.

While, owners of privatised banks were motivated to undertake board and management restructuring, traditional SOBs experienced entrenchment and practiced limited changes. The non-listed SOBs virtually kept old board and top management individuals between 1995 and 2000 with minimum injection of new blood. This could underpin the reason for lack of paradigm shift, as they continue to perpetuate their pre-1995 behaviour. The evidence indicates that whilst corporate governance weaknesses were reported in banks with insider ownership concentration (SOBs), there were no reports of corporate governance problems in banks with outsider ownership concentration (FOBs). The findings in this study support the view that, in developing countries, where there are weaker institutional environments, foreign ownership concentration will result in increased monitoring of banks whilst insider ownership concentration may result in corporate governance weaknesses (Brownbridge,
The continuous collusion and grabbing of company assets in the face of privatisation in SOBs, indicates that divestment of shares or control without appropriate regulatory enforcement will result in expropriation of depositors and tax payers.

The studies confirmed that, the continued government influence adversely affects post privatized top management performance in most SOBs. COOP continued to use their pre-privatization top managers after privatization experienced more managerial entrenchment. Thus, continuity in top management from SOE to privatized firm reduces the likelihood of organizational restructuring, since managers lacked the skills or knowledge to introduce initiatives that enhance bank firm performance. GCB and SG-SSB with new owners provided previous managers with performance linked incentives; the managers encouraged organizational restructuring having financial incentives to do so. Further appointment of new top management could have been the cause of the improved profits between 1997 and beyond, since managers with new skills could initiate organizational restructuring, improving efficiency.

9.3 Areas of Future Policy Considerations

The findings from this study have revealed privatisation, insider ownership concentration and corporate governance weaknesses in state banks. The study has also highlighted some regulatory weaknesses such as Legal weaknesses, lax enforcement of regulations, and a generally weak regulatory environment. Some loopholes and weaknesses in the pre-privatisation which were meant to address the insider ownership concentration and corporate governance problems have also been highlighted.

Using the generalised agency theory combined with the institutional perspective, the study has established that the problems relating to privatisation and the corporate governance problems which arise are complex and multi-dimensional. The study has also highlighted weak institutional arrangements such as a poor legal system and weak regulatory enforcement. Based on the findings in this research, some areas of future policy considerations can be highlighted.

Firstly, the study findings have revealed that the existing regulation prior to privatisation of banks may not have been effective in tackling the issue of insider ownership concentration. Some potential loopholes such as collusion between the board members and executives, ownership through intermediate institutions and failure of the regulation to stipulate the total shareholding which can be controlled by all the executive directors will need to be
addressed. All these loopholes could potentially be used to circumvent the ownership limitations. Secondly, whilst the focus has been in adopting an Anglo-Saxon type model of corporate governance which encourages a separation between ownership and management, the results from this study highlight that reformers should not simply adopt policies without looking at whether their normative descriptions fit the country context. According to Gustavson et al, (2009), the appropriateness of these models to specific countries has to be empirically assessed before such policies are implemented. Third, the 1989 regulation that assures in the privatisation drive implicitly introduced the separation between ownership and management (allows private ownership up to 100% and or complete private control of public banks) as a panacea for solving corporate governance problems, however, the regulations pay insufficient attention to another type of agency problem which can arise between shareholders and unconnected managers where there is a separation between ownership and management. The study has highlighted that it may be insufficient for the regulators to simply privatise without putting in place a regulatory environment which can deal with the agency problems which can arise as a result after the privatisation.

Fourth, although evidence from the study indicates that some board features of SOBs surveyed banks has changed between 1995 and 2000 compared to pre-privatisation era, little or no restructuring took place in the non-privatised banks. It was only a complete privatisation or absolute divorce from government precluded intervention and grabbing hands of controlling agents. Complete privatisation is needed for good corporate governance, since government guarantees cannot be assured in situations of continuous residual ownership. One of the provisions in the regulations requires potential owners, managers of banks affairs to meet fit and proper standard. The persuasive directives of the BoG was based on the 1989 banking law that mandates the BoG to specifically alter the rule for any bank it believed to be poorly governed. It also compels banks to disclose whether the nonexecutive directors are independent of management or not.
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Appendices
Appendix 1

Survey Questionnaire

This doctoral thesis attempts to examine the effects of divestiture of banks on corporate governance in the Ghanaian banking sector. The study is expected to contribute significantly to the discourse on corporate governance of banks in developing countries in general. Specifically, the thesis is also expected to become the reference point for future studies on corporate governance mechanisms within the Ghanaian banking sector. The data collected for this research is also expected to contribute significantly to future datasets and research on Ghanaian governance information such as privatisation, shareholding pattern and features of board of directors.

NB. All the sections must be completed by the banks established before year 2000.

Section A.

1.0 General Information on the Bank and Respondent

1.1 What is your position (designation) in the Bank?

1.2 Please indicate the period when your bank was issued with a banking license.

2.0 Privatisation and Ownership structure

2.1 Has there been ownership change since the establishment of the banks? Yes/No

If yes, what ownership change(s) experienced?

   a. Partial divestment of government shares.  b. Full divestment of government shares
   c. IPO  d. Other (Please specify)

2.2 Is the Bank or Bank Holding Company listed on the Ghana Stock Exchange?
   a. Yes

2.3 If you answered yes to 1.7 above please indicate if it was due to governments divestment drive from the banks? Yes/No
2. 4 Please indicate the current top 5 shareholders in your Bank starting with the largest shareholder for 1995 and 2000.

<table>
<thead>
<tr>
<th>Name</th>
<th>Share (%)</th>
<th>Ownership type</th>
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<th>Name</th>
<th>Share (%)</th>
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</table>

How did the share top 5 shareholders acquire the shares in your bank?

a. FDI  
b. IPO  
c. Other (specify)...........................

2.5 Which other financial sector reform (s) measures have your banks have undertaken since its establishment?

a. Full divestment  
b. partial divestment  
c. Board and Management restructuring  
d. Institutional restructuring  
e. Other (Please specify) ................................

Section B

Board and Managerial Changes and Corporate Governance

Did your bank undertake any restructuring of the board and top management between 1995 and 2000? Yes/No

If Yes, state the reason(s)

a. New owners’ appointments  
b. succession plan  
c. other (s).............................

3.1 What was the composition of your board of directors (number) for the two periods?

<table>
<thead>
<tr>
<th>Executive directors</th>
<th>Non-executives directors</th>
<th>Politicians</th>
<th>Foreign directors</th>
</tr>
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<tbody>
<tr>
<td></td>
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</table>
3.2 What were the lowest and the highest qualifications held by the board of directors over the two years? {School certificate; vocational/technical; graduates; other} tick applicable qualifications

<table>
<thead>
<tr>
<th>Qualifications in 1995</th>
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<tbody>
<tr>
<td>School cert</td>
</tr>
<tr>
<td>Vocational/tech</td>
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<tr>
<td>graduate</td>
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<tr>
<td>Other (s)</td>
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<table>
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<tr>
<th>Qualifications in 2000</th>
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<tr>
<td>School cert</td>
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<tr>
<td>Vocational/tech</td>
</tr>
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<td>graduate</td>
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<tr>
<td>Other(s)</td>
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3.3. How many of the board members and senior management belong to the following profession in 2000?


In 1995

[   ] Banker   [   ] Accountant   [   ] Management specialist   [   ] Economist   [   ] Law   [   ]
Engineer [   ] other.

In 2000

[   ] Banker   [   ] Accountant   [   ] Management specialist   [   ] Economist   [   ] Law   [   ]
Engineer [   ] other.

3.2 Board Sub-Committees

i. (a) Tick the board committees that you had in your banks. {Audit, Remuneration and nomination, Credit/investment, Risk, other (s) }

In each committee, indicate the year it was established.

i. Audit .......

ii. Remuneration and nomination.....

iii. Credit/investment.......
iv. Risk......

v. Other (s)......

4.0 Change in the Board objectives, roles and functions

4.1 What were the main objective(s) of the top management of the bank in 1995 and 2000? Please rate the listed objectives according to degree of importance. {very important (Y+); Important (Y); somewhat important(Yo); No idea}

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2000</th>
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</thead>
<tbody>
<tr>
<td>i. Profitability</td>
<td>(Y+, Y, Yo, N)</td>
<td>(Y+, Y, Yo, N)</td>
</tr>
<tr>
<td>ii. Meeting regulatory requirements</td>
<td>(Y+, Y, Yo, N)</td>
<td>(Y+, Y, Yo, N)</td>
</tr>
<tr>
<td>iii. Technology and innovations</td>
<td>(Y+, Y, Yo, N)</td>
<td>(Y+, Y, Yo, N)</td>
</tr>
<tr>
<td>iv. Long term employment security</td>
<td>(Y+, Y, Yo, N)</td>
<td>(Y+, Y, Yo, N)</td>
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<tr>
<td>v. State and social needs</td>
<td>(Y+, Y, Yo, N)</td>
<td>(Y+, Y, Yo, N)</td>
</tr>
<tr>
<td>vi. Other (s)</td>
<td>(Y+, Y, Yo, N)</td>
<td>(Y+, Y, Yo, N)</td>
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</table>

4.2 Would you agree that the board of your bank constitute a serious forum discussion of business issues? In 1995 Yes/No; 2000....Yes/No

4.3 Who is/are the main decision maker(s) in the bank? {a. CEO b. Chairman c. Board committee d. controlling shareholder e. Other .........................}

At end of 1995

Loan decisions: ............................................

Investment: ..................................................

Business strategy: ..........................................

Executive Compensation: ..................................

End of 2000
Loan decisions: ............................................

Investment: ............................................

Business strategy: ...........................................

Executive compensation: ...........................................

4.4 What reform measures did you consider a very important influence on board decision making? (i) company bye laws (ii) GSE/SEC regulations (c) parent group culture (e) other (specify)............

Managerial Re-organisation

Did your bank undertake management and staff re-organisation between 1995 and 2000? Yes/No

If yes, in which year and which reform measures were implemented:

<table>
<thead>
<tr>
<th>1995-2000</th>
<th>CEO /Executive replacement</th>
<th>Managerial capacity upgrade</th>
<th>Staff retrenchment</th>
<th>Staff training</th>
<th>Branch restructuring</th>
<th>Other (specify)</th>
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<td>After 2000</td>
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4.5. What factors are responsible for the changes observed on the board and management level of your bank between 1995 and 2000? Encircle the appropriate answer.

i. Privatisation ii. Company by laws iii. Regulatory factors iv. Others (indicate).........................

Section C

5.0 Compensation and Evaluation of Officials

5.1 Indicate how the following officials of the bank remunerated in 1995 and 2000 respectively (e.g. A. salaries b. shares c. fees d. other(s)
Executives ................................................................. .................................
Managers ................................................................. .................................
Other Skilled staff ................................................................. .................................

5.2 Were there performance-based remunerations for the CEO and other senior management staff? Yes/No?

If yes, indicate the year and the type by encircle one of the following.
a. Monthly Performance linked compensation (bonus) b. periodic performance based (yearly) c. non-performance linked bonus d. other (indicate).
b. In which year did you introduce the salary reviews and bonuses?..............?

5.3 How is your compensation package compared to your competitors/market?

a. Favourably b. below market value c. market value

5.4 What factors influenced the changes in compensation package(s) you indicated in (1) and (2) above

a. increased competition among financial institutions c. labour movements d. pouching

5.6 was there a well written procedure for evaluating and compensating of officials over the two periods? Yes/No. If yes, state the year.

6.0 compliance and liability

6.1 Has any member of the senior management of the bank ever been removed? Forced to resign or arrested for charges relating to violation of the Banking Act Bank? a. Yes b. No

If yes, indicate it against the year(s) and wrong committed.

Indicate the category of management/director, offence and the year range of the happenings.
<table>
<thead>
<tr>
<th>Category of Top managers</th>
<th>Year</th>
<th>Corruption/ Collusion</th>
<th>Theft</th>
<th>Regulation/Banking rule violation</th>
<th>Other (specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive director</td>
<td>1995</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-executive director</td>
<td>1995</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td>1995</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6.2 Compare the rate of board and management irregularities over the time of your operation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Very High</th>
<th>High</th>
<th>Low</th>
<th>Very Low</th>
<th>No idea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1995</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995 -2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>After 2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6.3 Which other factors may be responsible to the adherence or otherwise of the banking rules in your bank? a. banking law 1989 b. company bye law c. other (specify). Please, tick the most important one that affect your compliance level.

6.4 Has any member of the Board borrowed or attempted to borrow money from the bank to fund their personal business ventures.
   a. Yes b. No

If you answered yes, please indicate in which period the loans were extended to the directors.
   a. 1995
b. 2000
c. Both periods

ii. What is the category of the directors that have borrowed from the bank?
   a. Executive Directors  b. Non-Executive Directors  
c. senior managers.

Has the bank ever extended a loan or financial support to the bank holding?
Company or any of the subsidiaries within the banking group?
   a. Yes  b. No

If you answered yes, above please indicate in which period this occurred.
   a. 1995  
b. 2000  
c. Both periods

   iii. Has any member of the Board or sector ministry recommended or influenced any credit decision by the bank on behalf of or in favour of an associate or related party?
       a. Yes  b. No

Section D

7.0 Opinion Survey

7.1 To what extent, did the ownership structure observed in your bank affected by the privatisation policies of the government of Ghana? {To a very great extent (Y+), 2.To a great extent (Y) 3.To some extent (Yo) 4.To a little extent(Y-) 5. Not at all (N+) 6. No idea (No)}

   i. Partial divestment of shares....................( Y+ Y Yo Y- N+ No)

   ii. Full divestment of shares......................( Y+ Y Yo Y- N+ No)

   iii. Establishment of stock market...............( Y+ Y Yo Y- N+ No)

   iv. Licensing reform/ deregulation.............( Y+ Y Yo Y- N+ No)
v. Other(s).......................................................... (Y+ Y Yo Y- N+ No)

7.2 Board/Management restructuring and Corporate Governance

7.2.1 To what extent did the restructuring done between 1995 and 2000 affected any of the following Corporate Governance issues in your bank?
- Increased efficiency of the bank Y+ Y O N N+
- Reduced related party transactions Y+ Y O N N+
- Increased role of board in monitoring and Bank management Y+ Y O N N+
- Reduced fraudulent activities Y+ Y O N N+
- Increased protection of depositors Y+ Y O N N+

Bank and Staff Restructuring

7.2.2 To what degree was the following dimensions at your firm level been implemented between 1995 and 2000. {Express the extent to which they agree or disagree on a given statement from Y+ (very large extent); Y(large extent); Yo(some extent); Y-(small extent) ; N+ (no change) and N(no idea)}.

i. Change working conditions....................................................(Y+ Y Yo Y- N+ N)

ii. Layoffs.................................................................(Y+ Y Yo Y- N+ N)

iii. Branch closures...........................................................(Y+ Y Yo Y- N+ N)

iv. Increased pecuniary incentives...........................................(Y+ Y Yo Y- N+ N)

v. New recruits/skilled staff.........................................................(Y+ Y Yo Y- N+ N)

vi. Training.................................................................(Y+ Y Yo Y- N+ N)

vii. Other(s)............................................................(Y+ Y Yo Y- N+ N)

NB This section must be completed by all banks 18 banks operational in Ghana between 1995 and 2000.
7.3-7.5 Privatisation, Corporate governance and Regulatory reforms.

Effect of Prevailing Regulatory system on Corporate Governance of banks

7.3. How effective was the prevailing 1989 banking law impacted on the quality of Information Disclosed between 1995 and 2000. Encircle the one appropriate answer in each question below.
1. Very effective
2. Effective
3. Somewhat effective
4. Neither effective nor ineffective
5. Not at all
6. No idea

7.3.1 Dealt much more with information accuracy ..........................(1 2 3 4 5 6)
7.3.2 Encouraged prompt and timely reporting ............................. (1 2 3 4 5 6)
7.3.3 Much more comprehensive and more information content .................................(1 2 3 4 5 6)

7.4. To what extent have the 1989 banking law introduced by the central bank before the financial sector reforms been helpful to your bank in each of the following [circle one answer for each line across?]
1. To a very great extent
2. To a great extent
3. To some extent
4. To a little extent
5. Not at all
6. No idea

7.4.1 Improving bank supervision by the BSD .................................(1 2 3 4 5 6)
7.4.2 Increased on-site surveillance by the BoG Inspectors ................. (1 2 3 4 5 6)
7.4.3 Improved internal controls ................................................. (1 2 3 4 5 6)
7.4.4 Creating an enabling environment for development ..................(1 2 3 4 5 6)
7.4.5 Abusive behaviour of controlling agents held in check ..............(1 2 3 4 5 6)
7.4.6 Prompt enforcement of banking rules and laws .......................(1 2 3 4 5 6)
7.4.7 Bank related laws and regulations are better observed .........(1 2 3 4 5 6)
NB This section must be completed by all banks 26 commercial banks operational in Ghana.

7.5 Effect of the Post Privatisation Regulatory system on Corporate Governance

How did the further change in the banking laws in 2004 affect corporate governance?

1. To a very great extent
2. To a great extent
3. To some extent
4. To a little extent
5. Not at all
6. No idea

7.5.1 Improving bank supervision by the BSD —.........................(1 2 3 4 5 6)
7.5.2 Increased on-site surveillance by the BoG Inspectors — (1 2 3 4 5 6)
7.5.3 Improved internal controls------------------------------- (1 2 3 4 5 6)
7.5.4 Creating an enabling environment for development ----(1 2 3 4 5 6)
7.5.5 Abusive behaviour of controlling agents held in check --(1 2 3 4 5 6)
5.5.2 Prompt enforcement of banking rules and laws---------(1 2 3 4 5 6)

Appendix II Interview Protocol for Cases

1. Could you please give some general information on the bank (General history and reforms implemented between 1990 and 2000)?

2.

A. Changes in Ownership Structure

3. What is the ownership structure of your bank? Have there been changes to the structure between 1995 and 2000? Was it due to the divestment of government shares? If yes explain how these reforms informed the ownership type and concentration observed between 1995 and 2000.

B. Changes in the Board and top management features

4. How did the board and top management changed between 1995 and 2000. How was the board and top management constituted, composed and functioned?

- Appointment and the constitution of the board and senior management..............
- Qualification and competence of banks directors and top management staff
- Independence of the board..............................................................................................................
- Monitoring of the bank..................................................................................................................
- Meeting of the BoDs and top management meetings......

5. Was there a change in corporate objectives and decision making authority between 1995 and 2000? How? How did the board and top management objectives and functions changed between 1995 and 2000? What authority was crucial in appointing, who/authority was responsible for strategic direction of the banks? Major business decision making e.g. lending and investment decisions.................?

6. How did the management and organisational features of the bank changed between 1995 and 2000? How did the organisational structure and workforce determined? How did the quality of bank and staff changed?

   - Appointment and the constitution of the senior management and other skilled staff. Managers.
   - Rationalisation of bank branches and staff
   - Training and development of management and staff.

C. Compensation, Monitoring and Evaluation

7. How were executive managers and other managers rewarded and evaluated between 1995 and 2000?

   - How were the senior management staff evaluated?...............................................................  
   - What rules and policies guide the management evaluation and compensation?
   - What rules and policies underpin the compensation schemes adopted by the banks...

   - When were these introduced?.................................

8. Internal Control System and Risk Issues

Did any of the above measure(s) influence the internal control system? Yes/No

If yes, explain
A. How was top management involvement in internal control issues in 1995 and in 2000...?

(Policy measures, executive committees, top management awareness)

B. How did the information disclosure changed as a result of the above factors?

(E.g. Accuracy of formation, Adequacy of information, Timeliness of dissemination, Methods of disclosure, Insider dealing, Meetings)

C. Changes in Internal audit System

Compliance of directors and management to the banking code and rules..............

Compliance of other staff to rules..............................................................

D. What are the rules or policies guided related-party transactions in your bank?

- Loans to board members.................................................................
- Loans to major shareholders...........................................................
- Purchase of bank shares by a director ..............................................

Other(s)........................................

E. Legal and Regulatory Enforcement

(a) Has your bank been penalised/fined by the BoG for breach information disclosure rules/directives? Yes/No If yes, what was your offense between 1995 and 2000?

(b) How did the reform measure(s) provided above affect the role of the bank of Ghana as the regulatory/supervisory role?

- Capability of BoG as supervising agent..........
- Independence of the bank of Ghana as a regulatory agent
- Quality of supervisors( qualification and experience)

(c) Overall, did the banking laws passed as part of the reform measures provide the needed sound prudential and regulatory base for the financial system? Yes/No

(d) Give reasons for your choice............................................................

(c) Overall, did the post FINSAP banking laws passed IN 2004 provided the needed sound prudential and regulatory base for the financial system? Yes/No

Give reasons for your choice...............................................................
Appendix III. Post privatisation Staff restructuring

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GCB</td>
<td>3508</td>
<td>NA</td>
<td>2875</td>
<td>2032</td>
<td>2032</td>
<td>2032</td>
<td>2214</td>
<td>2190</td>
</tr>
<tr>
<td>NIB</td>
<td>525</td>
<td>NA</td>
<td>492</td>
<td>492</td>
<td>492</td>
<td>492</td>
<td>465</td>
<td>437</td>
</tr>
<tr>
<td>SG-SSB</td>
<td>1472</td>
<td>NA</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>BBG</td>
<td>957</td>
<td>NA</td>
<td>686</td>
<td>686</td>
<td>686</td>
<td>689</td>
<td>758</td>
<td>700</td>
</tr>
<tr>
<td>SCB</td>
<td>600</td>
<td>NA</td>
<td>591</td>
<td>591</td>
<td>591</td>
<td>591</td>
<td>592</td>
<td>592</td>
</tr>
</tbody>
</table>
Appendix IV: Comparison between pre and post FINSAP corporate governance and Regulatory Framework of the banking sector of Ghana

I. **Ownership**

<table>
<thead>
<tr>
<th></th>
<th>Before FINSAP</th>
<th>After FINSAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the maximum allowable ownership of a bank by an individual or institution?</td>
<td>Determined by government</td>
<td>No ownership restriction, but BoG must authorise share-ownership of 10% and above.</td>
</tr>
<tr>
<td>May non-financial firms (groups) be a controlling owner?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>What is the maximum allowable ownership of a bank by a foreigner (institution/firm)?</td>
<td>Determined by government</td>
<td>Foreign investors can hold up to 100% provided the BoG approved it.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Board Composition and Responsibilities</th>
<th>&lt; FINSAP</th>
<th>&gt; FINSAP</th>
<th>Details of the Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current government officials</td>
<td>Yes</td>
<td>Yes</td>
<td>Not applicable except for GCB where government has shares</td>
</tr>
<tr>
<td>Ex-government officials</td>
<td>Yes</td>
<td>yes</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Politicians (including cabinet members)</td>
<td>Yes</td>
<td>Yes</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Foreigners (or non-residents)</td>
<td>No</td>
<td>Yes</td>
<td>Applicable for banks with foreign ownership.</td>
</tr>
<tr>
<td>Other restrictions to appointments</td>
<td>None</td>
<td>Yes</td>
<td>Fit and proper test</td>
</tr>
<tr>
<td>Minimum number of</td>
<td>None</td>
<td>Yes</td>
<td>Relative to the bank.</td>
</tr>
<tr>
<td><strong>independent directors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
</tr>
<tr>
<td><strong>Restrictions on board size or composition</strong></td>
<td>None</td>
<td>none</td>
<td>As may be contained in their Regulations.</td>
</tr>
<tr>
<td><strong>Maximum number of boards on which a bank director can serve.</strong></td>
<td>None</td>
<td>Yes</td>
<td>1 except with consent from the Bank of Ghana.</td>
</tr>
<tr>
<td><strong>CEO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Can the chairperson and CEO the same person?</strong></td>
<td>yes</td>
<td>yes</td>
<td>Companies Act, but BoG guideline on good governance encouraged separation of chair and CEO.</td>
</tr>
<tr>
<td><strong>Are CEOs’ subjected to Fit &amp; Proper test of BSD?</strong></td>
<td>yes</td>
<td>yes</td>
<td>Enshrined in the Banking Act, 2004</td>
</tr>
<tr>
<td><strong>Are CEO’s required to certify bank’s financial statements</strong></td>
<td>None</td>
<td>yes</td>
<td>Banking Act.2004</td>
</tr>
<tr>
<td><strong>Mandatory board committees</strong></td>
<td>Not applicable</td>
<td>Yes for listed banks</td>
<td>Securities Industry Act.</td>
</tr>
<tr>
<td><strong>If mandatory, are there rules concerning the composition of the committee ( minimum number of independent directors, etc)</strong></td>
<td>No</td>
<td>Yes for listed companies</td>
<td></td>
</tr>
<tr>
<td><strong>Responsibilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reviewing /guiding corporate strategy &amp; major plans</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Companies Act, 1963 and reinforced by the Banking Act, 2004 and securities Act 1993</td>
</tr>
<tr>
<td><strong>Reviewing &amp; approving risk policy</strong></td>
<td></td>
<td></td>
<td>Enshrined in the Banking Act</td>
</tr>
<tr>
<td>Activity</td>
<td>MOSB</td>
<td>YES</td>
<td>Notes</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>------</td>
<td>------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Reviewing &amp; approving annual budget</td>
<td>No</td>
<td>Yes</td>
<td>Banking Act. For the listed companies, Securities Industry Act.</td>
</tr>
<tr>
<td>Setting performance objectives</td>
<td>No</td>
<td>Yes</td>
<td>Stated in the Banking Act, 2004</td>
</tr>
<tr>
<td>Overseeing major capital expenditures, acquisitions and divestitures</td>
<td>None</td>
<td>Yes</td>
<td>Banking Act, 2004</td>
</tr>
<tr>
<td>Selecting executives, monitoring &amp; replacing key executives</td>
<td>None</td>
<td>Yes</td>
<td>Banking Act, 2004</td>
</tr>
<tr>
<td>Setting key executive compensation and board remuneration</td>
<td>None</td>
<td>Yes</td>
<td>For listed banks, under the Securities Industry Act.</td>
</tr>
<tr>
<td>Overseeing the process of disclosure</td>
<td>None</td>
<td>Yes</td>
<td>Banking Act, 2004</td>
</tr>
</tbody>
</table>
### Appendix V: Changes Regulatory supervision of Banks

<table>
<thead>
<tr>
<th>Supervisory Independence</th>
<th>Before FINSAP</th>
<th>After FINSAP</th>
<th>Improvement in Supervision autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can it solely and legally declare financial organization insolvent</td>
<td>No</td>
<td>Yes</td>
<td>Banks could be forced by BoG to close for various reasons that are inimical to the financial health of the industry and country at large.</td>
</tr>
<tr>
<td>Can it force a bank to change its internal organisational structure?</td>
<td>No</td>
<td>Yes</td>
<td>Example. ALCO compliance unit, Risk Management Department and Internal Audits were required to be put in place. The bank can force bank director to resign and or prosecute him</td>
</tr>
<tr>
<td>Can supervisors visit banks at will</td>
<td>No</td>
<td>Yes</td>
<td>Supervisors can visit as much as necessary to ensure sound financial system</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Budgetary Independence</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>To what extent BoG depends on Government for size and use of its budget?</td>
<td>Dependent On Government</td>
<td>Not dependent on Government</td>
<td>Bank of Ghana law 1992 enshrined the budgetary autonomy of BoG</td>
</tr>
<tr>
<td>Adequacy of resources at the disposal of the bank of Ghana</td>
<td>Inadequate</td>
<td>Adequate</td>
<td>The reforms to the Laws made provisions to enable the bank operate autonomously</td>
</tr>
</tbody>
</table>
How do the qualification of the BOG senior staff compared to those of industry staff?

<table>
<thead>
<tr>
<th></th>
<th>Comparable</th>
<th>Comparable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The bank have skilled and qualified staff comparable to the industry, but motivation is not equally comparable</td>
<td></td>
</tr>
</tbody>
</table>

**Institutional independence**

<table>
<thead>
<tr>
<th>Supervisory Department of the Bank of Ghana</th>
<th>BED</th>
<th>BSD</th>
</tr>
</thead>
<tbody>
<tr>
<td>BoG Act 2002 and Banking Act 2004 and 2007</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Appointment/removal of head of department</th>
<th>Government</th>
<th>Government</th>
<th>No change</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Influence on internal organisational structure of banks</th>
<th>Minimal</th>
<th>Enhanced</th>
<th>Fit and proper test for all directors is carried out by the BoG before they are appointed</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Total number of professional supervisors</th>
<th>Below 20</th>
<th>Over 200</th>
<th>Increased number of competent supervisors</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Frequency of onsite inspections(average per bank)</th>
<th>once</th>
<th>As many as necessary</th>
<th>Introduction of bank relationship managers increased bank visit beyond yearly one</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>% of supervisors get employed by a bank after quitting</th>
<th>minimal</th>
<th>95% increase</th>
<th>Higher BSD staff turnover</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>How are Remuneration of supervisors compared with that of the bankers?</th>
<th>Favourable</th>
<th>Lower</th>
<th>Remuneration of the BSD staff has decreased</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>What is the liability of the supervisors?</th>
<th>Not stated</th>
<th>Not stated</th>
<th>Supervisors are liable if they do not act in good faith</th>
</tr>
</thead>
</table>
### Appendix VI. Changes to Law enforcement in the banking sector of Ghana

<table>
<thead>
<tr>
<th>Potential Breach</th>
<th>Details and actions to be taken</th>
<th>Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant share transfer in breach</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 37)</td>
<td>Part v banking Act 673</td>
</tr>
<tr>
<td>Non-disclosure/breach of reporting rules</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 49)</td>
<td>Part viii banking Act 673</td>
</tr>
<tr>
<td>Engagement of new director(s)</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 38)</td>
<td>Part v banking Act 673</td>
</tr>
<tr>
<td>Persistent capital ratio deficiency</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 23)</td>
<td>Part vii banking Act 673</td>
</tr>
<tr>
<td>Non-compliance with liquid requirement</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 33)</td>
<td>Part iv banking Act 673</td>
</tr>
<tr>
<td>Auditing irregularities</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 81)</td>
<td>Part viii banking Act 673</td>
</tr>
<tr>
<td>Failure/late annual report publication</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 72)</td>
<td>Part banking Act 673</td>
</tr>
<tr>
<td>Breach of accounting rules</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 73)</td>
<td>Part viii banking Act 673</td>
</tr>
<tr>
<td>Failure to comply with supervisor of BSD</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 56)</td>
<td>Part vii banking Act 673</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Breach of exposure rules (e.g. third party)</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 43-44)</td>
<td>Part vi bancoing Act 673</td>
</tr>
<tr>
<td>Exceeding limit on lending /investment in bank’s subsidiaries</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 44)</td>
<td>Part vi banking Act 673</td>
</tr>
<tr>
<td>Engagement of new directors/auditors in breach</td>
<td>A bank which fails is liable to pay BoG a fine not exceeding 1000 penalty point units. (section 38 &amp; 40)</td>
<td>Part v banking Act 673</td>
</tr>
<tr>
<td>Theft and fraud</td>
<td>Attorney General may, by executive instrument prosecute the executive concerned. (section 88-89)</td>
<td>Part ix banking Act 673</td>
</tr>
<tr>
<td>Penalties for non-compliance</td>
<td>Where the BoG is satisfied that a person has contravened the provisions above, The BoG shall reverse the transactions (34, 35, or 36), it may by directive:</td>
<td></td>
</tr>
</tbody>
</table>
### Appendix VII Prudential Returns Submitted to the Bank of Ghana

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1987</td>
</tr>
<tr>
<td>Liquidity Reserve Ratio</td>
<td>Weekly</td>
</tr>
<tr>
<td>Net open position (Total foreign currency trading)</td>
<td>-</td>
</tr>
<tr>
<td>Top 20 depositors</td>
<td>-</td>
</tr>
<tr>
<td>Large expenses (eg 50% largest exposure)</td>
<td>-</td>
</tr>
<tr>
<td>Profit &amp; Loss account</td>
<td>-</td>
</tr>
<tr>
<td>Statement of assets and liabilities</td>
<td>Monthly</td>
</tr>
<tr>
<td>Large exposures on advances &amp; deposits</td>
<td>Monthly</td>
</tr>
<tr>
<td>Analysis of overdrafts, loans, advances</td>
<td>Monthly</td>
</tr>
<tr>
<td>Capital adequacy returns</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Maturity profile of assets and liabilities</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Current year operating results</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Classification of NPLs</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Consolidated balance sheet</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>Half-yearly</td>
</tr>
<tr>
<td>Statutory audit returns</td>
<td>Half-yearly</td>
</tr>
<tr>
<td>Branch closing and/ or relocation</td>
<td>As necessary</td>
</tr>
<tr>
<td>Total classification of all loans</td>
<td>-</td>
</tr>
</tbody>
</table>
Appendix VIII. The regulatory landscape between 1990 and 2010

The section shows the key regulatory developments that have occurred within the industry over the past since the FINSAP in the late 1980s. In 2008, four bills relating to the banking industry were passed into law by Parliament to support the development of the financial sector;

2003 Universal Banking Licence was introduced; banks with ¢70 billion in capital permitted to carry out any form of banking. 2003 Maintenance, transaction, and transfer fees charges by commercial banks were abolished

2004 The Banking Act 2004 (Act 673) replaced the Banking Law 1989 (PNDCL 225)

2006 Secondary deposits reserves requirement (15%) was abolished


2007 Credit Reporting Act 2007 (Act 726) and Banking (Amendment) Act 2007 (Act 738) were passed

2007 National Reconstruction Levy was abolished

2007 Re-denomination of the cedi (¢10,000 = GH¢1)

Lenders Act, 2008 (Act 773)

Non-bank Financial Institution Act, 2008 (Act 774)

Home Mortgage Finance Act, 2008 (Act 770)- Home Mortgage Finance Act (Act 770)-

Anti-money Laundering Act, 2008 (Act 749).
Appendix VIX: Glossary of key financial terms, equations and ratios

**Capital adequacy ratio** is the ratio of adjusted equity base to risk adjusted asset base as required by the Bank of Ghana (BoG)

**Cash assets** includes cash on hand, balances with the central bank, money at call or short notice, and cheques in course of collection and clearing

**Cash ratio** = \((\text{Total cash assets} + \text{Total liquid assets}) \div (\text{Total assets} - \text{Net book value of fixed assets} - \text{Investments in subsidiaries and associated companies})\)

**Cash tax rate** = \(\frac{\text{Actual tax paid}}{\text{Net operating income}}\)

**Cost income ratio** = \(\frac{\text{Non-interest operating expenses}}{\text{Operating income}}\)

**Current ratio** = \(\frac{\text{Total assets} - \text{Net book value of fixed assets} - \text{Investments in subsidiaries and associated companies}}{\text{Total liabilities} - \text{Long term borrowings}}\)

**Dividend payout ratio** = \(\frac{\text{Proposed dividends}}{\text{Net profit}}\)

**Dividend per share** = \(\frac{\text{Proposed dividends}}{\text{Number of ordinary shares outstanding}}\)

**Earnings per share** = \(\frac{\text{After tax profits before proposed profits}}{\text{Number of ordinary shares outstanding}}\)

**Financial leverage ratio** = \(\frac{\text{Total assets}}{\text{Common equity}}\)

**Liquid assets** includes cash assets and assets that are relatively easier to convert to cash, e.g., investments in government securities, quoted and unquoted debt and equity investments, equity investments in subsidiaries

**Loan loss provisions** = \(\frac{\text{Bad debts} + \text{Interest in suspense}}{\text{Gross loans and advances}}\)

**Loan portfolio profitability** = \(\frac{\text{Interest income attributable to advances} - \text{Provisions for bad and doubtful loans}}{\text{Net loans and advances}}\)

**Loan loss rate** = \(\frac{\text{Bad debt provisions}}{\text{Average operating assets}}\)

**Net book value per share** = \(\frac{\text{Total shareholder's funds}}{\text{Number of ordinary shares outstanding}}\)

**Net interest income** = \(\frac{\text{Total interest income}}{\text{Total interest expense}}\)
**Net interest margin** = Net interest income / Average operating assets

**Net operating income** = Total operating income - Total non-interest operating expenses + Depreciation and amortisation - Loan loss adjustment + Exceptional credits

**Net operating (or intermediation) margin** = \([\text{Total interest income} + \text{Total non-interest operating revenue}] / \text{Total operating assets} - [\text{Total interest expense} / \text{Total interest-bearing liabilities}]\)

**Net profit** = Profit before tax - Income tax expense

**Net spread** = \((\text{Interest income from advances} / \text{Net loans and advances}) - (\text{Interest expense on deposits} / \text{Total deposits})\)

**Non-interest operating expenses** include employee related expenses, occupancy charges or rent, depreciation and amortisation, directors emoluments, fees for professional advice and profit on exchange, dividends from investments and other non-interest investment income, and bank and service charges

**Non-operating assets** comprises net book value of fixed assets

**Operating income** = Net interest income + Non-interest operating revenue

**Profit after tax margin** = Profit after tax / Total operating income

**Profit before tax margin** = Profit after extraordinary items but before tax / Total operating income

**Quick (acid test) ratio** = \((\text{Total cash assets} + \text{Total liquid assets}) / (\text{Total liabilities} - \text{Long term borrowings})\)

**Return on assets** = Profit after tax / Average total assets

**Return on equity** = Profit after tax / Average total shareholders' funds

**Shareholders' funds** comprise paid-up stated capital, income surplus, statutory reserves, and capital surplus or revaluation reserves

**Total assets** = Total operating assets + Total non-operating assets

**Total debt ratio** = Total liabilities / Total assets