

EFFECT OF OWNERSHIP STRUCTURE, BOARD COMPETENCE AND BOARD ACTIVITY ON THE FINANCIAL PERFORMANCE OF RURAL AND COMMUNITY BANKS IN GHANA.

NAME: Desmond Afutu Nartey.

Abstract

The impact of corporate governance on the performance of rural and community banks (RCBs) in Ghana has increasingly engaged the attention of regulators and investors. Various studies have been conducted to determine the link between ownership structure and performance, albeit with inconclusive results. This study investigates the relationship between the ownership structure and financial performance of rural and community banks (RCBs) in Ghana, and the moderating effects of board competence and board activity. ROA and ROE were used as performance measures. The quantitative methodology was adopted and a multiple regression analysis was used to examine the relationship in the context of agency and resource dependence theories. Furthermore, the research conducted a case study on an actual rural bank to verify the results of the main study. The findings suggest significant impact of three of the four ownership dimensions (insider ownership, institutional ownership and government ownership) on RCBS performance. The positive link between insider ownership and RCBS performance appears to justify RCBS policy of conditioning directorship on share ownership. It also gives support to the convergence of interest hypothesis. On the other hand, the negative relationship between institutional ownership and RCBS performance suggests a contradiction of the efficient monitoring hypothesis. Regarding the moderating effects, the results imply that a combination of high insider ownership and high board competence is more likely to lead to lower RCBS performance, while increased board competence or increased board activity, in the presence of high institutional ownership, may improve RCBS performance. This improved performance may be more so with increased board competence when the objective is to improve ROE. On the whole, the findings of the study imply a strong link between insider ownership and RCBS performance, and between institutional ownership and RCBS performance. Consequently, regulators and RCBS should focus on increasing insider ownership as a vehicle for mitigating poor performance. Furthermore, institutional representation on the boards of RCBS should be encouraged to provide the necessary resources to improve performance of RCBS. Finally, given the low level of government ownership in RCBS, the significant positive impact on performance requires further research to confirm whether it is actually the "helping hand" effect that is at work.

Key Words: Ownership structure; rural and community banks; financial performance; board competence; board activity; ROA; ROE.