

Corporate Governance and Firm Profitability: A Study of Ghana's Banking Sector.

ABSTRACT

Corporate performance stands out as one of the most crucial research considerations in the field of financial management. The elements that have significant impacts on the assessment of such performance can be segregated into two categories, namely micro and macro factors. Organization must therefore consider the benefits accrued, as well as the interests of investors who seek to gain from the capital they invest in the organization since an enterprise can be deemed alluring based not only on its capacity to generate profits, but also on its capability to sustain and augment profits. Adhering to principles and practices of corporate governance constitutes a crucial catalyst for enhancing organizational efficiency and achieving success and therefore this study seeks to examine the moderating effect of financial leverage could have on the correlation that exists between corporate governance and the financial performance of commercial banks in Ghana. The study employed a panel regression models to estimate and ascertain the primary and moderating influences of financial leverage. Results revealed a negative relationship between board size and firm size with profitability (ROA). However, the negative correlation between board size and ROA is significant, while that of firm size is insignificant. Additionally, it is evident that there is a positive and significant relationship between liquidity and profitability in the short term. This study recommends that it would be prudent for the various commercial banks in the country to implement quality corporate

governance practices in order to fully realize the benefits associated with good corporate governance practices.

KEYWORDS: Corporate governance, corporate performance, financial performance, financial leverage, liquidity and profitability.

Introduction

“Determinants of firm’s performance are under consideration of investigation since the evolution of modern firm. From financial point of view, the ultimate goal of a firm is to maximize the stockholders’ wealth and firm performance is one of the most important factors which helps to maximize the shareholder wealth. Firm performance comprises the actual output or results of a firm as measured against its intended outputs, goals and objectives” (Alabdullah, 2018; Gupta & Sharma, 2014). “It encompasses three specific areas of firm outcomes: financial performance, which includes profits, return on assets and return on investments; secondly product market performance such as sales, market share, service propositions and thirdly shareholder return and economic value added” (Mohammed & Al Ani, 2020). “For this reason, firm performance is among the most important research considerations of financial management. Factors that have important effects on determination of firm performance could be divided into micro and macro factors” (Issah & Antwi, 2017; Selvam *et al.*, 2016).

In Ghana, the upsurge in financial institutions failures and other fraudulent activities due to some of the reasons cited as unethical business practices among top level management in recent times, has put into question good corporate governance principles and best codes of practices of these institutions. These developments are progressively making corporate governance an important phenomenon in recent years.

Statement of Problem

“Generally, corporate governance is becoming a present-day subject due to its tremendous impact to economic growth and development” (Otieno *et al.*, 2015). Poor corporate governance structures have a long-term effect of diminishing public trust within the organizational system, particularly banking system. Consequently, it could bring about firms’ failures, thereby impacting negatively on any economy.

“While the literature is replete with studies on determinants of firm profitability (or performance) in Ghana, findings from these studies have remained mixed and inconclusive. Many of the studies on Ghana are focused on selected sector(s) of the economy” (Maamaet *et al.*, 2019; Darko *et al.*, 2016; Sarpong-Danquah *et al.*, 2018; Asante-Darko *et al.*, 2018; Owusu & Weir, 2016; Agyei & Owusu, 2014). “A number of these studies only examined the effect of corporate governance on firms’ performance while others investigated the impact of a single factor or variable on firm profitability” (Jain & Jamali, 2016; Amba, 2015).

Again, “a number of attempts have also been made by researchers to investigate the relationship between firm size and profitability; however, findings have been varied for different countries and industries” (Warrad&Oqdeh, 2018; Gatsiet *et al.*, 2013). Also, studies on the relationship in emerging countries are very limited. Another common and peculiar feature of a vast number of these studies is their focus on relatively few numbers of firms. Thus, creating a gap in literature.

Justification of the study

The investigation of the determinants of the profitability of firms in Ghana is apt and expedient for a number of reasons. The Ghanaian economy has undergone series of reforms since the last couple of decades under successive democratic governments. However, research effort towards ascertaining the core determinants of profitability of wide range of firms under these policy reforms have remained sparse. Ghana, alongside other African countries have had a very large

stock market but the performance of firms has remained abysmally poor. Many commercial banks in Ghana have performed far below expectation in terms of overall output, revenue generation, and profitability (Odusanya *et al.*, 2018; Mensah *et al.*, 2013; Boahene *et al.*, 2012). This dismal performance is attributable to high costs of business transactions and the prevailing macroeconomic conditions. The business environment has remained very unfriendly, with many businesses, regardless of their sizes and years of existence, witnessing downward trend in their profit earnings. The situation has remained unabated despite the implementation of policy mix by successive governments.

This study therefore seeks to net moderating effect of firm size and leverage on the relationship between corporate governance and financial performance or otherwise profitability of commercial banks within the banking sector. Thus, results from the study will help in informing stakeholders on policy formulation tailored towards addressing issues or factors that directly impacts firm profitability. The outcome of this study will more so contribute to knowledge and bridge the gap in literature. The study will also help the management and other stakeholders of an organization assessing the importance of corporate governance in relation to Profitability.

Objectives of the Study

This study aims to examine the effect of corporate governance on firm profitability of selected commercial banks in Ghana. To achieve this target, the specific objective therefore is as follows;

- To examine the effect of the corporate governance on the financial performance of commercial banks in Ghana.

Research Questions

The questions to be addressed in this study include,

- What is the effect of the corporate governance on the financial performance of commercial banks in Ghana?

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This study therefore seeks to find out the effect of corporate governance and financial performance or otherwise profitability of commercial banks within the banking sector. Thus, results from the study will help in informing stakeholders on policy formulation tailored towards addressing issues or factors that directly impacts firm profitability. The outcome of this study will more so contribute to knowledge and bridge the gap in literature. The study will also help the management and other stakeholders of an organization assessing the importance of corporate governance in relation to Profitability.

Scope of the Study

The theoretical scope of this study focuses on the operations of corporate governance and its impact on the firm profitability or otherwise financial performance. The geographical scope of the study is therefore limited to the banking sector of Ghana with specific focus on the commercial banks within the country spanning the period 2008-2019. This particular scope is preferred due to availability of data as well as easy access to data from institutions.

Organisation of the Study

This study is organized into five parts with each chapter covering a particular aspect of the research. The first part (part one) comprises the research introduction to the study covering the background, statement of the problem, objectives and research questions, significant, and scope, as well as the organization of the study. Part two consists of the literature review of the theories and concepts bothering on issues of corporate governance, firm profitability or financial performance. Part three which comprises of the research methodology discusses the method employed in collecting and analysing of data. Part four comprises of the analysis of the data collected and presentation of the results. Part four further discusses the results in relation to reviewed literature. The final part (part five) discusses the summary of findings, draws conclusions and makes some recommendations.

LITERATURE REVIEW

This section of the study introduces related literatures and reviews of articles, journal, publications and books on the theories and concepts of corporate governance and its related activities in connection to firm profitability or performance.

Conceptual Review

The Concept of Corporate Governance

“Corporate governance is seen as the set of measures adopted with a firm to favour economic agents to take part in the productive process in order to generate some organizational surplus and to set up a fair distribution between the partners, taking into account what they have invested into the firm” (Blair & Stout, 2017). “Effective corporate governance reduces “control rights” shareholders and creditors confer on managers, increasing the probability that managers invest in positive net present value projects” (Agu *et al.*, 2019). “Corporate governance is seen as a system of corporate management and control to satisfy the strategic goals of all stakeholders while complying with the legal, ethical and other environmental needs of the society. Sound corporate governance practices have become critical to global efforts to stabilize and strengthen global capital markets and protect investors. They help firms to improve their performance and attract investment” (Udinet *et al.*, 2017; Salvioniet *et al.*, 2016).

According to López-González *et al.* (2019) and Heera (2015), corporate governance is “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”. “This definition assigns to governance the primary role of mediating between finance providers (i.e., shareholders and stakeholders) and employers (i.e. managers), stating that, since resource owners demand their control to management, they need to be assured to receive a reward for their activity. Specifically, shareholders need to be shielded from the negative effects that derive from the conflict of interest suffered by managers, who are hired to act in shareholder’s behalf but have an incentive in acting selfishly” (Honoré *et al.*, 2015). “This definition is much narrower with respect to the former, and encompasses one of the elements that have traditionally been associated with corporate governance, namely the mediation between managers and shareholders. Principals must weigh the costs of monitoring and controlling agents

(agency costs) against the costs they are likely to incur from negative managerial behaviours in the absence of efficient monitoring and control” (Goshen & Squire, 2017).

Definition of Corporate Governance

“The definition of the concept essentially relates to the theoretical viewpoint involved” (Sharif & Rashid, 2014). For example, corporate governance can be seen from a shareholder perspective, which entails the methods employed for maximizing owners’ value, or from the organizational perspective, in terms of controlling mechanisms to regulate and maintain business operations (Bottenberg *et al.*, 2017; Aguilera *et al.*, 2015). The latter viewpoint finds substance in the definition provided by Chauhan & Chauhan (2014), which defines corporate governance as “the system by which corporations are directed and controlled”. “This broad definition does not emphasize in any way who is responsible for each role, on behalf of who, and what is the ultimate scope that has to be pursued when directing the company. By doing this, it provides the structure through which the objectives are set and the means of attaining those objectives and performances monitoring” (OECD, 2004).

Corporate Governance Issues in Developing Countries

Grosman *et al.* (2016) and Waweru (2014) argue that “corporate governance in emerging markets has lately attracted much attention due to the weaknesses of corporate governance in developing countries, which was an important reason for a series of economic crises that affected these countries”. “Emerging markets tend to have quite well-developed physical financial infrastructure including central banks, commercial banks and stock exchanges, but to have less well-developed processes and systems of accounting, governance, regulation and other financial infrastructure, and less efficient markets with less liquidity than the world’s most advanced systems. These differences lead to greater uncertainty and risk, and they enhance the

international diversification possibilities for investors from all countries in the world” (Clarke, 2015).

Zhao (2016) have argued that “there are a multitude of problems facing developing economies, including risk and uncertainty, political instability, weak legislation, high levels of government intervention and low levels of protection for investors. As such, there is a necessity for effective structures of corporate governance to be adopted. There have been a number of suggested measures to help improve governance structures including improving the strength and transparency of capital market structures to increase the overall confidence of investors, improving the performance of domestic firms, and encouraging growth through the use of equity instead of debt” (Dimsdale, 2015). Review by Naciti V, Cesaroni F, Pulejo L (2022), suggests that “corporate governance and sustainability literature is evolving from quite a conceptual approach to rather more strategic and practical studies, while its theoretical roots can be traced back to a number of foundational studies in stakeholder theory, agency theory and socio-political theories of voluntary disclosure”.

Corporate Governance in Ghana

“Traces of the corporate governance root in Ghana can be traced to its companies’ laws right from the colonial days. The regulation, control and governance of business enterprises in Ghana as of present, are largely contained within the provisions of the company legislation which has its root in Ghana’s colonial past. Like most other former British colonies, Ghana inherited, at independence, many rules and regulations left behind by the colonial government. During the colonial period, British company legislation was introduced into the country; hence Ghana’s legal system and corporate governance practices mirrored the UK pattern” (Tuokuu & Amponsah-Tawiah, 2016).

“Prior to the independence, foreigners, mostly British, controlled the activities of business enterprises in many of their old colonies and thus bring along with them their economic interest and their (British) legislation” (Furnivall, 2014). In brief, the Ghanaian Companies Code, 1963 (Act 179) is based largely on the English Companies Act of 1948 (Afolabi & Sy, 2016). Agyemang & Castellini (2013) posited that “internal influences on corporate governance disclosures of many developing countries like Ghana come from one or more of the sources such as: government, the professional bodies such as accountancy bodies, Institute of Directors, Corporate governance forum, the Securities and Exchange Commission, the Central Banks, the stock exchange body and the Corporate Affairs Commission”. Thus, Boadu (2016) further argued that government of a country play vital role in corporate governance frameworks through promulgation of laws that will affect management and control of business enterprises in such country. Specifically, the Ghanaian Companies Act, 1963 (Act 179) specifies the requirements of corporate governance fundamentals in Ghana such as greater roles for the company’s directors and an effective participation of the shareholders in company’s affairs. In one sense, these enactments can be seen as the means by which government attempts to represent and, at least to some extent, to define the role of corporate governance in society (Agyei & Owusu, 2014; Abugre, 2014). If this view of government’s role is correct, legal provisions should reflect societal perceptions of the need for and desired contribution of corporate governance.

Corporate Governance and Financial Performance

Several studies present evidence suggesting effective governance may improve firm performance (Bhatt & Bhatt, 2017; Arora & Sharma, 2016; Azeez, 2015). Kesner *et al.* (1986) examine the determinants of board composition based on New York Stock Exchange (NYSE) traded companies. They find that firms that perform poorly tend to remove insiders and add outsiders on their boards.

Theoretical Review

Agency Theory

One of the theoretical principles underlining the issue of corporate governance is the agency theory developed by Jensen & Meckling (1976) resulting out of the separation of ownership and control. Investors have surplus funds to invest but due to technical constraints such as inadequate capital and managerial expertise to manage the funds, employ the services of managers to invest their funds in profitable ventures to generate good returns and the managers rewarded for their service. Agency problem however arise because the actions of managers do not always promote the interest of the financiers, some of their actions are very detrimental to the fortunes of the financiers. Thus, agency problem as described by Jensen and Meckling focuses on the consumption of perquisites by managers and other types of empire building (Goshen & Squire, 2017). A citation made from McKnight & Weir, (2009) by Kelton AS, Yang YW (2020) maintains that, "corporate governance systems take into account the opportunistic actions of management, taking into account the nature of both internal and external corporate governance mechanisms and the desire to minimize agency costs".

Empirical Review

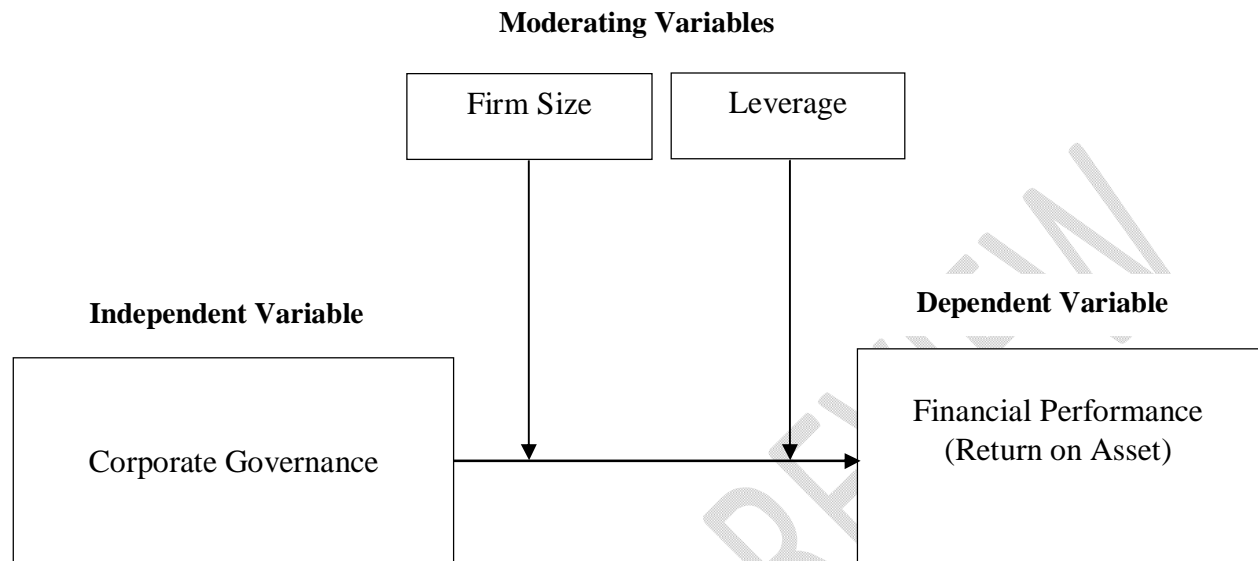
With the main aim of examining the effect of both corporate governance and firm size on the financial performance of companies that were listed on the Indonesia Stock Exchange, Budiyanoto&Hudiwinarsih (2015) employed a purposive sampling method to select listed companies based on a Corporate Governance Perception Index (CGPI) rating. With data spanning the period 2010-2013, data from a total of 59 companies were analysed with the help of SPSS version 21. Findings from the study revealed that good corporate governance had an impact on profitability and leverage but did not have any impact on liquidity. The study by Ch *et al.* (2020) with the aim of examining the relationship between the attributes of corporate

governance and earning management taking into account the moderating role of firm size and leverage for highly capitalized firms, adopted data from companies listed on the Pakistan stock exchange over the period of 2005-2019. By utilising the E-views software for descriptive summary, correlation matrix, and OLS regression, the study revealed that leverage has a significant optimistic effect as moderator of CG and earning management. In contrast, CG has insignificant influences on earning management.

Conceptual Framework

The theoretical structure in this investigation included autonomous factors recognized under corporate governance on one hand and banks' financial performance on the other hand with firm size and firm leverage as the moderating variables. The issue under scrutiny is; the investigation of the relationship between corporate governance and the financial performance of banks and the impact of firm size and firm leverage as moderating variables on that relationship within the banking sector of Ghana. The conceptual framework therefore seeks to explain the researchers' synthesis of the literature presented in view of the research objectives and the research question.

Figure 1: Conceptual Framework



Source: Author's Construct, 2021.

2.6 Summary

In sum the study focused on areas that were considered relevant to the research topic and the research objective by the researcher. One of the theories and concepts that the researcher considered relevant are the corporate governance.

RESEARCH METHODOLOGY

Research Design

This section of the study covers the methods and procedures that were employed in collecting the data. The research methodology outlines the general technique of a well-planned procedure employed for the collection reliable and accurate information with the aim of conducting an enquiry. It contains the research design, study population and sample size, research approach and strategy, sources of data and sampling technique, procedure for data collection and data analysis, ethical consideration and reliability of instruments.

Bryman (2016) outlines five specific different kinds of research methods which include experimental design, cross-sectional or survey design, longitudinal design, case study design, and comparative design. This research study is basically focused on a case study approach utilising commercial banks operating within the jurisdiction of Ghana and as well, a correlational research design that seeks to examine the relationship between two variables (one independent, and the other-dependent). The objective of utilising a case study approach is typically to “produce a rigorous analysis of the single case”, and then “employ a theoretical investigation” of the subject matter (Bryman, 2016). “The study employed panel quantitative research design. This research design was preferred because the data used in the study comprise of ratios that have been transformed into panels. The research design is suitable in studies where both the cross-sectional and longitudinal characteristics of the units being studied are required” (Gujarati, 2003).

Study Population

The survey's target population is a sample set of population units about which the survey data are to be used to make inference. For this survey, the study population is the banking sector. The banks that were used in the study are banks that have been accredited by the Bank of Ghana and as well subject to the availability of data.

Sampling Technique and Sample Size

In this study, sampling involves the selection of some elements in the target population, intending to use data obtained from them to understand the entire population.

The purposive sampling technique was employed in arriving at all the 7 commercial banks operating within the banking space of the country, which the researchers believe possesses the relevant information required for this study (Taherdoost, 2016).

Data Collection

This study adopted a quantitative research approach to data collection as is common with case studies (Yin, 2017). For the purpose of this research, secondary data was collected. The secondary data provided a presentation of the actual information that was obtained to achieve the aim of the study and was collected by obtaining the relevant information from official annual reports published by the banks on their websites. Regression analysis was used to calculate how much the percent change occurred by the independent variable on the financial performance in the selected banks.

Data Analysis

The data collected for the study was quantitative in nature. Descriptive and inferential statistics were used to analyse the data collected for this study. This choice enabled the researcher to meaningfully describe the distribution of scores using statistics that depended on the type of variables in the study and the scale of measurement.

The relevant data was transformed into ratios for the study variables in each firm for every year using excel program. Descriptive statistics such as measures of central tendency and measures of dispersion were used to summarize and profile the pattern in each firm. In addition, panel regression analysis using Stata Version 17 was employed to establish the nature and significance of the relationship between independent variables and dependent variable. Significance of individual explanatory variable on the dependent variable was carried out using t-test at 5% significance level. Joint significance of the regression model was performed by means of F-test.

DATA ANALYSIS AND DISCUSSION

Results of the study has been presented based on the model discussed in the preceding section to test the directional effect of corporate governance on the firm performance of some selected commercial banks in Ghana. Descriptive statistics of the variables was utilised in the study.

Descriptive Statistics

Descriptive statistics for the variable information that were employed in the analysis. The study therefore employs statistical central tendencies including the mean, standard deviation, minimum, and maximum to quantitatively describe the main features of the data. The descriptive statistics are therefore presented and explained separately purposely for easy presentation and clarity.

Table 1 below presents the descriptive variable of the variables employed in the study. Relative to the descriptive analysis of the financial performance of the selected banks, the table reveals that ROA falls between a minimum percentage of -2.01 and a maximum percentage of 11.4.

The table records an average of 3.5 percent and a standard deviation of 2.3 percent for the overall sample of ROA.

Table 1: Descriptive Statistics

	FL	ROA	SZ	BSIZE	LIQ
Mean	7.183	0.035	8.806	9.143	1.108
Median	5.676	0.033	9.210	9.000	1.127
Maximum	45.434	0.114	10.071	14.000	1.841
Minimum	2.241	-0.021	6.536	7.000	-0.469

Std. Dev.	6.025	0.023	1.000	2.245	0.247
Skewness	4.590	0.618	-0.937	1.209	-2.904
Kurtosis	26.565	4.395	2.553	3.462	20.275
Jarque-Bera	2238.51	12.001	12.842	21.212	1556.81
Probability	0.000	0.002	0.002	0.000	0.000
Sum	603.389	2.929	730.896	768.000	93.051
Sum Sq. Dev	3012.991	0.045	82.068	418.286	5.071
Observations	84	84	84	84	84

Note: ROA = Return on Assets, FL = Financial Leverage, SZ = Firm size, BSIZE = Board Size, LIQ = Liquidity.

Source: Field Data, 2022

In relation to the moderating variables, Table 1 indicates that out of a total of 84 observations, the minimum value for leverage is 2.24 whilst the maximum value is 45.43. The average leverage of the selected banks is 7.18 with a recorded standard deviation of 6.03. In terms of the firm size of the selected banks, Table 1 records a minimum value of 6.54 and a maximum value of 10.07. The average firm size recorded was 8.81 whereas its standard deviation was 1.00. In terms of corporate governance as in Table 1 presented above, the average board size of the selected banks is 9 directors, with a minimum of 7 directors and a maximum of 14 directors. Again, with regards to the only control variable employed in the study, Table 1

indicates that average liquidity level of the selected banks stood at 1.108 while its standard deviation recorded was 0.247. Based on the frequency of information gathered, only one company has a board size of 14 directors for the seven selected banks. Results of this study relate to the findings of Lublin (2014). According to Lublin (2014) of the Wall Street Journal, the smallest board size has an average of 9 board of directors whereas the largest board size has an average board size of 14 or more board of directors although companies generally had an average board size of 11 directors.

Short Run Relationship Between Corporate Governance and Firm Profitability

Table 2: Relationship Between Corporate Governance and Firm Profitability

Dependent Variable: ROA

Method: Panel Least Squares

Total panel (balanced) observations: 84

Variable	Coefficient	Std. Error	t-Statistic	Prob.
B.SIZE	-0.001553**	0.001158	-1.341313	0.1836
F.SIZE	0.005402**	0.001868	2.891353	0.0049
F.LEV	-0.000651	0.000447	-1.456485	0.1492
LIQ	0.000345***	0.010285	0.033498	0.0000
R-squared	0.100891	Mean dependent var		0.034764
Adjusted R-squared	0.067174	S.D. dependent var		0.019272
S.E. of regression	0.022750	Akaike info criterion		-5.157497
Sum squared resid	0.034431	Schwarz criterion		-5.082993
Log likelihood	281.5048	Hannan-Quinn criter.		-5.127288
Durbin-Watson stat	1.067758			

*** denotes significance level at 1%, ** at 5% and * at 10%. ROE = Return on Assets, F.LEV = Financial Leverage, F.SIZE = Firm Size, LIQ = Liquidity.

The results in Table 2 attempt to assess the relationship between corporate governance and profitability of commercial banks in Ghana in the short run. From Table 2, it could be seen that there exists a negative relationship for both board size and firm size with profitability

(ROA). However, the negative relationship between board size and ROA is significant while that of firm size is insignificant. It could also be seen that there exists a positive significant relationship between firm liquidity and profitability in the short run, however exhibits a negative relationship between financial leverage and profitability.

4.6 Relationship Between Corporate Governance and Firm profitability

Table 3: Long Run Relationship Between Corporate Governance and Firm Profitability
Dependent Variable: ROA

Method: Panel Fully Modified Least Squares (FMOLS)

Panel method: Pooled estimation

Cointegrating equation deterministics: C

Coefficient covariance computed using default method

Long-run covariance estimates (Bartlett kernel, Newey-West fixed bandwidth)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
B.SIZE	-0.002713	0.021967	-0.123510	0.9218
F.SIZE	0.024117	0.687506	0.035079	0.9777
F.LEV	-0.000576	0.000445	-1.294764	0.1992
LIQ	-0.085894	1.048442	-0.081925	0.9480
R-squared	0.200518	Mean dependent var		0.029352
Adjusted R-squared	-10.992236	S.D. dependent var		0.015877
S.E. of regression	0.054980	Sum squared resid		0.003023
Long-run variance	0.001273			

*** denotes significance level at 1%, ** at 5% and * at 10%. ROE = Return on Assets, F.LEV = Financial Leverage, F.SIZE = Firm Size, LIQ = Liquidity

From Table 3, it could be seen that there exist a positive but not significant relationship between firm size and profitability in the long run. It could be concluded from Tables 2 and Table 3 that in both short and long terms, corporate governance has a negative relationship with profitability. This implies that a unit increase in board size will lead to 0.08 and 20

pesewas decrease in profitability in the short run and long run respectively. However, in the short run, liquidity is significantly positively related to profitability while in the long run, firm size is rather positively related to profitability but not significant as could be seen in Tables 2 and Table 3 respectively.

Discussion

Based on the frequency of information gathered, only one company has a board size of 14 directors for the seven selected banks. Results of this study relate to the findings of Oluwakayode, Fasanmi Oluwatobi and Esther, Igbekoyi Olusola and Oluwatoyin, Lanre-Jimoh Bejide (2024) there is a significant positive relationship between transparency measured by the transparency index and CSR practices, a significant positive relationship between environmental sustainability measured by the Dow Jones Sustainability Indices and CSR, and stakeholders' engagement measured by stakeholder's feedback score has a positive but insignificant relationship with CSR practices. The study concluded that adherence to corporate governance codes, especially in areas of environmental sustainability and transparency, enhances CSR practices. It recommended that Deposit Money Banks should pay keen attention to corporate governance practices, especially in environmental sustainability. Regulators are also advised to entrench stakeholders' engagement committees in corporate governance codes to foster better stakeholder engagement. Emeka, Omaliko, Mordi Kelvin, and Okpala, Ngozi. E. (2023) found that, strong corporate governance practices ensure the success of the company. In light of the study's findings, Lublin (2014) of the Wall Street Journal, the smallest board size has an average of 9 board of directors whereas the largest board size has an average board size of 14 or more board of directors although companies generally had an average board size of 11 directors.

Correlation matrix results indicate that long standing firms have the probability in increasing their assets base, liquid assets, generates positive cash inflow and grow in their capital expenditures to total assets ratio. "In recent years, the influence of corporate governance on environmental and social aspects has also received increased attention. Scholars have explored the integration of environmental, social and governance (ESG) factors in governance frameworks" (Sikka et al., 2022). "They have emphasized the role of responsible governance practices in addressing sustainability challenges, such as climate change, social inequality, and stakeholder concerns" Sridharan & Hasan, (2023). This emerging research area highlights the importance of aligning corporate governance with sustainable development goals and the broader societal impact of corporations. As indicated

in Table 2 below, the results of the Pearson correlation matrix suggest that there is no correlation among any of the variables as they recorded no value above the tolerance level of 0.7. It can be observed that some of the variables had negative correlation indicating a converse relationship (i.e., higher score of one variable is related with lower score on another variable). The correlation ranges between -1 to 1, where the value of 1 (-1) indicates a strong relationship between variables while 0 indicates no relationship between the variables. This further confirms the findings of Omaliko Emeka, Mordi Kelvin and Okpala, Ngozi. (2023) that, "corporate governance mechanism does not moderate the effect of operating activities on performance of listed manufacturing firms in Nigeria. The relationship between operating activities and firm performance (NAPS), moderated by corporate governance mechanism was found to be positive and significant". A coefficient that is positive denotes that there exists a direct relationship between the increase in the independent variable and an increase in the mean of the dependent variable. Conversely, a negative coefficient implies that there is an inverse relationship between the increase in the independent variable and the mean of the dependent variable.

Findings of the study supports a study carried out in Nigeria that adherence to corporate governance codes, especially in areas of environmental sustainability and transparency, enhances CSR practices. It recommended that Deposit money banks should pay keen attention to corporate governance practices, especially in environmental sustainability. Regulators are also advised to entrench stakeholders' engagement committees in corporate governance codes to foster better stakeholder engagement Fasanmi, O. O., Esther, I. O., & Oluwatoyin, L.-J. B. (2024). The present study reveals a parallelism with the discoveries of Nima *et al.* (2012), in spite of the fact that the latter observed a noteworthy correlation between the return on assets (ROA) and the size of the firm. Conversely, the results indicate an adverse association between board size, liquidity, and profitability.

SUMMARY, CONCLUSION AND RECOMMENDATION

This study was carried out to establish the impact of corporate governance on the financial performance of commercial banks and to examine the moderating effect of both firm size and leverage on such relationship.

With cognisance to the findings of the study, the following recommendations have been suggested; This study recommends that it would be prudent for the government of Ghana to develop a policy for all the various commercial banks in the country to implement quality corporate governance practices in order to fully realize the benefits associated with good corporate governance practices as stipulated in the literature review. Additionally, it is recommended that the Bank of Ghana enforce all banking laws of all commercial banks in Ghana strive to achieve a debt-to-equity ratio that will minimize the cost of capital and increase firms' profitability, while also taking into account company size, which has a direct positive impact on firm profitability in terms of ROA. **This confirms a similar study conducted in Nigeria**, Emeka, Omaliko, Mordi Kelvin, and Okpala, Ngozi. E. 2023 **which claims that** the financial performance (ROA) of the selected listed companies in Nigeria was found to be positively and significantly influenced. Lastly, managers of commercial banks (e.g., the board of directors and management) should put forth cognizant attempts at voluntarily expanding their capital base occasionally and this should be joined into the banks' strategic arrangement. This will limit the endeavours needed to comply with the BOG's time constraint for meeting new least capital structure necessities.

On the area of further studies on the subject matter, the study recommends that other research studies should conduct studies on non-financial listed companies on the Ghana Stock

Exchange. Other studies could also include corporate governance variables such as CEO duality, and or gender diversity. Future research endeavours should aim to incorporate the use of numerous respondents for each participant, with the intent of augmenting the resultant research discoveries.

CONCLUSION

The study's primary focus lies in the domain of corporate governance, with a specific emphasis on the moderating impact of firm size and financial leverage on profitability of commercial banks in Ghana. The research commences with the objective of examining the influence of corporate governance on profitability, as measured by ROA. Furthermore, the study evaluates the moderating effect of both firm size and financial leverage on the association between corporate governance and profitability.

The study elucidates the long-term association between corporate governance and firm profitability. It is evident that there exists a positive but insignificant correlation between firm size and profitability in the long run.

Findings revealed that there is a positive and significant moderating effect on the relationship between corporate governance and banks profitability. However, the study's findings reveal that financial leverage does not appear to have any significant moderating effect on the aforementioned relationship.

In conclusion, the capital market in Ghana constitutes a type of market that provides both medium- and long-term funds which is typically handled by the Ghana Stock Exchange, thus, sectioned into the primary market where initial securities are offered to the public and the secondary market for trading shares other than those for initial public offering (IPO). This study examined the causal impact of corporate governance on the financial performance of commercial banks in the Ghanaian market.

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- 1.
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