# Does corporate governance matter in the failures of listed home-grown banks?

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**Abstract:** Building on corporate governance-failure literature, this study fills a void in the current literature by examining how corporate governance issues can cause business failures of home-grown listed banks. Employing the case of the failure of a listed local bank in Ghana – UT Bank, we found that, although the bank recognised best practices in corporate governance as a prevailing framework to promote efficiency, transparency, accountability, and integrity, these principles were continuously violated and ignored, culminating in the demise of the business. In addition to this, early warning signals were also ignored. Specifically, UT's independent directors failed to think and act independently in the interest of the bank and its depositors. The managerial, policy and research implications are examined.

**Keywords:** corporate governance; Africa; Ghana; sustainable development; bank failure.

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## 1 Introduction

Recent scholarship in corporate governance has demonstrated that weak corporate governance is the root cause of both financial crisis (Li et al., 2020), and high-profile failures in the USA (e.g., Washington Mutual), Europe (e.g., Thomas Cook, Carillion, British Steel, and Patisserie Valerie Parmalat and Wirecard) and Africa (e.g., UT and Capital Banks). These failures, in turn, resulted in a substantial financial loss to depositors and debtholders (Amankwah-Amoah et al., 2021). The investment community, for example, lost $307 billion following the collapse of Washington Mutual in the USA. In a more recent case, academics, the financial press, and the investment community had all questioned why Wirecard's supervisory board, auditors and financial regulators missed the $2 billion financial fraud. These, in turn, have prompted intensified debate

about the nature and extent of the corporate governance framework worldwide to safeguard the interest of the firm and its shareholders (Accountancy Daily, 2020; FRC, 2018; FT, 2020), and, in this way, reduce the probability of corporate failure.

Accordingly, reforms worldwide have focused on governance highlighting enhanced accountability, integrity, efficiency, and transparency through monitoring of CEOs by independent directors. OECD Corporate Governance Factbook (2021) highlights that all jurisdictions surveyed have endorsed a requirement or recommendation to ensure the board composition consists of at least 50% independent directors or two to three board members, regardless of board structure. Further, the factbook reports that 90% of jurisdictions surveyed require an independent audit committee, while there is a near consensus on the recommendation that nomination and compensation committees should be wholly or largely of independent directors. In Japan, for example, companies are required to appoint at least two independent directors on a 'comply or explain' basis (OECD, 2021), while Chile, France, Israel, and the USA, link board independence requirement or recommendations with ownership structure (i.e., more concentrated or dispersed ownership) of the firm. Elsewhere in the USA, these independent corporate board members are required to ensure compliance of the business judgement rule is adhered by reviewing related party transactions. Indeed, more independent directors on the board, ceteris paribus, reduce opportunistic behaviours of the CEO (Neville et al., 2018), thereby enhancing firm survival chances (Appiah and Chizema, 2015), in practice.

Research on the prediction of failure has documented the contribution of several factors to the failure process including industry effects (Chava and Jarrow, 2004; Bragoli et al., 2022), and geographical factors (Maté-Sánchez-Val et al., 2018). Others have explored the relationship between corporate failures and corporate board size, composition in the retailing industry (Chaganti et al., 1985), CEO and director turnover (Daily and Dalton, 1995). Here, prior studies underscore the importance of effective monitoring through the presence of independent directors, the composition of the internal control committee, as well as the role of the external auditor to prevent future corporate scandals and ultimate failure (Melis, 2005). Here too, using the agency theoretical lens, contemporary scholars seem to converge on the notion that the likelihood of corporate failure is heightened by firms with insider domination, CEO duality, as well as the absence of audit or remuneration committees (Sorensen and Miller, 2017). Appiah and Chizema (2015), however, suggest that the effectiveness of the remuneration committee and the independence of its chairperson are negatively related to failure, but not its mere presence, size, and meetings of the remuneration committee. Similarly, Brooks and McGuire's (2022) study also documents a negative association between corporate social responsibility and future bankruptcy for politically connected weak corporate governance firms. Olsen and Tamm (2017), in contrast, suggest that the governance characteristics change because of the bankruptcy process, implying reverse causality. Therefore, a governance change is inadequate to guarantee that the firm is immune to protracted collapse. This said these prior studies explore the role of governance in the corporate failure syndrome mostly with datasets from large non-financial firms in developed economies (Appiah et al., 2015), thus ignoring the financial firms, notwithstanding the role this key sector played in the global financial crisis. The few studies using datasets from financial firms (e.g., Berger et al., 2016) have focused on governance mechanisms in developed economies and concluded that failures are strongly influenced by ownership

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Neville, F., Byron, K., Post, C. and Ward, A. (2019) 'Board independence and corporate misconduct: a cross-national meta-analysis', *Journal of Management*, Vol. 45, No. 6, pp.2538–2569.

structure, particularly, high shareholdings of lower-level management and non-chief executive officer (non-CEO) higher-level management increase failure risk significantly.

In sum, research focuses on corporate governance mechanisms-performance nexus and in this way, neglects the corporate governance principles-bank failure link. Put differently, little is known about the role of corporate governance principles including transparency, accountability, integrity, and efficiency in bank failures in less developed economies. Thus, we have a limited understanding of the conditions under which governance failure could culminate in business failures (Amankwah-Amoah et al., 2021, 2022). The question of why home-grown banks in less developed economies fail remains an empirical question. This study attempts to fill this void by answering the question, 'how can corporate governance issues create conditions that cause business failures in the developing economies context?'. Specifically, we examine how the failure of a listed home-grown Bank in Ghana, UT Bank can be traced to deviations of prevailing best practices in corporate governance implementation.

Why UT Bank in Ghana, critics may ask? First, UT bank is selected due to its restatement of assets (liabilities) of UT Bank from GHS 1.3 bn (GHS 1.9 bn) to GHS 437.4 m (2 billion) as at 14 August 2017. This restatement fuelled debate in the financial press on why regulatory bodies and the investment community failed to spot corporate governance principles breaches in the iconic award-winning home-grown bank. Here, the prestigious awards of UT Bank Ghana are not limited to the bank of the year award 2011, the most valued company by PricewaterhouseCoopers and B&FT newspaper in 2012. We argue that the UT Bank scam mirrors that of US Enron and Italy Parmalat, thereby providing an interesting case to examine corporate governance principles required in the post-financial clean-up and COVID-19 era, to reduce bank failures in less developed economies. Second, Ghana's financial sector continues to receive considerable attention in the press, partly due to the Central Bank's financial sector transformation agenda in 2017–2018, to firm the regulatory framework for a more resilient banking sector. The increase in minimum capital requirement to GHS 400 million by 31 December 2018 is noted as one significant element of the reform (Ghana Banking Survey, 2019). This minimum capital requirement did not only account for the 2017–2018 banking crisis in Ghana but also the collapse of 11 banks, implying a 32% shrink in banks from 34 to 23 (Ghana Banking Survey, 2019). The full implementation of the minimum capital requirement, in contrast, increased Ghana's banking sector's total operating assets by 11.3% to GHS 80.64 billion, implying a robust financial sector. To consolidate this gain, the Central Bank issued a Corporate Governance Directive 2018, highlighting the independence of the board and its oversight committees. The corporate governance directives and board independence, in particular, are expected to improve the effectiveness of bank-level governance by enhancing accountability, transparency, integrity and efficiency. These, in turn, may augment the banks' legitimacy to access critical resources required for survival. Indeed, two years after these directives empirical evidence remains non-existent, thus limiting our understanding of the role of governance in the failure process in the less developing economies context.

Finally, like most developing economies, Ghana has historically underperformed[1] relative to all the six critical dimensions of World Governance Indicators (WGI), namely, voice and accountability (0.58), political stability and absence of violence/terrorism (0.03), government effectiveness (–0.21), regulatory quality (–0.08), rule of law (0.07), and control of corruption (–0.11) (see World Governance Indicators, 2020). These WGI set the governance context for a board of directors to operate in Ghana (Neville et al.,

2018), implying that findings of prior governance-bank failure in both developing and developed economies, with strong WGI scores may not be wholly applicable in Ghana. Put differently, Ghana's weak judicial system cannot protect minority shareholders, depositors and debtholders' rights and thus, allow dominant shareholders to render boards ineffective. Higher corruption levels and weak governance systems may render corporate governance ineffective. From this point, we argue that Ghana's weak accountability, regulatory quality, the judicial system, control of corruption, and governance system differentiate Ghana and create a research gap. This gap notwithstanding, research on bank-level governance and bank failure remains sparse, despite the call from Appiah (2011). We examine this pivotal issue.

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Our paper offers three key contributions on corporate governance and corporate failure. First, theoretically, our primary contribution is answering the question, whether corporate governance can be blamed for the failure of listed banks in Africa? Unlike prior studies with an emphasis on corporate governance-corporate failures nexus in developed countries, we focus on developing economies, an essential but neglected area of research. Put differently; our study is the first of its kind to explore the link between core corporate governance principles in the context of listed banks failure in Africa. Second, the study contributes to the gap in the literature on why banks fail in Africa. In detail, we highlight the violation of fundamental principles of corporate governance as the main drivers to failure of listed banks in Africa. Second, past studies have demonstrated that corporate governance issues can lead to business failure, but this seems almost absent in the contemporary discourse of indigenous business failure (Amankwah-Amoah, 2016). This is more so in the emerging economies context. Accordingly, we extend the governance-corporate failure conversation by investigating how corporate governance can lead to incessant bank failures in Ghana. Finally, we focus on four key governance elements, namely, accountability, integrity, efficiency, and transparency, thus, a departure from the few studies that touched on mechanisms of corporate governance, for example, ownership structure and bank failure (Kashian and Drago, 2017).

The rest of the paper proceeds as follows. Section 2 reviews the literature on transparency and corporate failure. Section 3 describes the research methodology and data sources. Section 4 presents the results of the study. Section 5 outlines the key discussion and implications for research and practice.

## 2 Literature

### *2.1 Transparency and corporate failure*

Transparency ensures stakeholders are equipped with relevant and well-represented information to enable them to evaluate how and why the firm had utilised its resources (Amran and Ooi, 2014). Transparency reduces agency costs, thereby minimising information asymmetry and its allied problems, moral hazards and adverse selection (see Healy and Palepu, 2001). These, in turn, are essential to attracting institutional investors, as well as retaining and improving their confidence (Healy et al., 1999), both in the firm and the stock market. Improved investor confidence, in particular, is linked to enhancing firm's legitimacy to manage risks better (Younas et al., 2019), improved access to finance (Abor, 2007) at a lower cost (Claessens et al., 2002), thereby improving performance, value (Keating, 1997) and survival chances (Appiah and Chizema, 2016).

Literature seems to converge on the positive link between transparency and several corporate governance measures, including the presence of audit committee (Ntim et al., 2017), corporate governance effectiveness (Kachouri and Jarboui, 2017), higher proportions of female directors (Mohammad and Wasiuzzaman, 2019), directors independence and board size (DeBoskey et al., 2018). Recent evidence, however, documents transparency as negatively related to board size (Holescher, 2020), board independence (Mohammad and Wasiuzzaman, 2019) and ownership concentration (Arsov and Bucevska, 2017), but displays an insignificant association with institutional ownership (Holescher, 2020) and financial distress (Shahwan and Habib, 2020). Holescher's (2020) US study used a dataset from 103 oil and gas firms covering 1991–2013, while Mohammad and Wasiuzzaman's (2019) Malaysia study used the transparency of environmental disclosures. Arsov and Bucevska (2017) study also used a dataset from 145 firms in Croatia, Macedonia, Slovenia and Serbia, while Shahwan and Habib's (2020) study used 51 Egyptian firms covering 2014–2016. Thus, the nexus between corporate governance, transparency and corporate failure is dependent on the proxies of corporate failure (financial distress vs. corporate bankruptcy), transparency (e.g., forward-looking disclosure index, corporate political disclosure and policy transparency, social, economic and environmental disclosures, etc.), type of ownership structure (e.g., institutional vs. ownership concentration), country context (e.g., less corruption vs. more corruption). This relationship may also vary per industry (e.g., oil and gas sector vs. financial sector). In short, the link between transparency and bank failure remains an empirical question.

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## *2.2 Accountability and corporate failure*

Cadbury's (1992) report focuses on corporate accountability and control, emphasising the role of non-executive directors as key to a capable board composition and structure. Thus, broad principles are highly recommended to prevent financial scandals like Maxwell and Peck in the 1980s. Besides, since risk differs among industries, literature frowns on prescriptive rules of internal control but instead agrees on general guidance on how to model a firm and industry-specific system of internal control. Higgs (1998), for example, proposes a more significant proportion of non-executive directors on boards and more apt remuneration for non-executive directors. These, in turn, should foster more effective monitoring of the notorious agency problem, as it would enhance the abilities of non-executive directors to represent shareholder interests and align the interests of shareholders and directors, including reducing the risk of failure. The results of the vast literature on board accountability measures and corporate failure, however, are 'vexing', 'contradicting', 'mixed', and 'inconsistent' (Dalton and Daily, 1999).

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Recent studies provide further insights on corporate governance accountability failures which accounted for various financial scandals and subsequent collapse of firms (e.g., Appiah and Chizema, 2015; Goktan et al., 2018; Li et al., 2020). A stated objective of recent studies is to examine the role of board quality and board oversight committees in the failure process (Appiah and Chizema, 2015, 2016). The board quality was proxy with independent non-executive directors, a measure which conceptually captures the board resource and control functions. The board oversight committees examine, include nomination committee effectiveness (i.e., a composite index made up of nomination committee's presence, independence, chairman independence, size and frequency of meetings) or remuneration committee effectiveness (i.e., a composite index made up of

remuneration committee's presence, independence, chairman independence, size and frequency of meetings). Our review indicates that the effectiveness of the remuneration committee, independence of the chairman of the remuneration committee and independence of the board as a whole is required to prevent corporate failures. However, these conclusions are based on the research of non-financial institutions in the UK, and thus, may not be applicable in the context of home-grown banks in emerging economies.

## *2.3 Integrity and corporate failure*

Smith (2003) suggests that the audit committee and internal audit function are to be blamed for the unprecedented corporate failures in the early 2000s, due in part to their 'rubber stamp approach' to the unreliable financial statements produced by these high-profile companies. Evidence (Li and Li, 2020) also suggests that financial irregularities are positively (negatively) related to board size (the percentage of independent directors' composition). Consequently, Sarbanes-Oxley Act (2002) makes directors more personally liable for the unreliable disclosure they produce, suggesting a turning point for directors as it specified personal liability and prison for directors found guilty of a corporate crime which may lead to corporate failure. Dikolli et al.'s (2020) study supports this notion, emphasising the negative association between audit fees and CEO behavioural integrity. From this point, audit firm tenure continues to be the focus of regulators (see PCAOB, 2017).

Improvements in the role of the audit committee, and internal audit function, as well as the independence of the external auditor, denotes a major step to guarantee the integrity of the financial statement, thereby increasing the investment community's confidence and support. These, in turn, are required to increase the firm's survival chances. Evidence from Bananuka et al. (2018) corroborates this assertion. Others find that average audit firm tenure (Davis et al., 2009) enhances client-specific auditor expertise (Casterella and Johnston, 2013; Lim and Tan, 2010) and greater audit committee member support (Rummell et al., 2019). The latter, however, is a function of an audit committee member's experience and CPA status (Rummell et al., 2019). Appiah et al. (2018), for example, find that corporate insolvency is negatively related to the meetings and independence of the audit committee but not merely its presence, expertise and size. In sum, prior studies' findings are inconclusive for the audit committee's value, implying future research is welcomed to identify the situations in which ACs add value to corporate governance and, in this way, reduces the likelihood of corporate failure.

## *2.4 Efficiency and corporate failure*

Efficiency, one of the core values in corporate governance, is vital to enhance the firm's ability to achieve its primary objectives including growth, profitability and survival. Prior research used various theoretical perspectives (e.g., resource dependency theory, agency theory, stewardship theory, and trade-off theories), but documents inconclusive results on the corporate governance-efficiency nexus (Zeineb and Mensi, 2018; Favalli et al., 2019; Shabbir et al., 2019; Lee et al., 2019; Botlhale, 2020). Efficiency displays a negative association with board independence and board size using a dataset from Malaysia (Lee et al., 2019), South Africa (Alhassan and Boakye, 2020), but not in Vietnam (Tran et al., 2020), and China (Shabbir et al., 2019). Efficiency, however, is negatively related to the

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Favalli, R.T., Maia, A.G. and da Silveira, J.M.F.J. (2020) 'Governance and financial efficiency of Brazilian credit unions', *RAUSP Management Journal*.

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remuneration committee but positively related to CEO duality, audit committee size, CEO tenure, and audit independence (Tran et al., 2020; Alhassan and Boakye, 2020). These inconclusive results may not only be justified by the conflicting theoretical perspectives. They may similarly be justified by the proxies used for efficiency, which range from cost and technical efficiency (Lee et al., 2019), use of intellectual capital (Tran et al., 2020), and pure technical efficiency (Alhassan and Boakye, 2020) among others. What is unclear is whether or not small boards are effective monitors. Smaller board size makes communication more efficient, resulting in increased accountability and commitment (Ahmed et al., 2006; Dey, 2008). Critics suggest smaller boards are less diversified expertise with overloaded board oversight duties; implying members are not better positioned to discharge their control and resource provision functions effectively (Guest, 2009).

Interestingly, larger board size arguably is also detrimental to governance efficiency (De Andres et al., 2005; Prado-Lorenzo and Garcia-Sanchez, 2010). The above notwithstanding, there is a near consensus in the existing literature regarding the positive link between effective monitoring of board on efficient firm operations and enhanced firm survival chances. Zaki et al. (2011) study, for example, finds that the cost-income ratio positively impacts the probability of financial distress in the ensuing year. Thus, a decline in the cost-income ratio over time signifies prudent management of the firm through cost minimisation. Cost minimisation, in turn, enhances profitability, thereby reducing financial distress and ultimately, corporate failure.

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## 3 Methodology

The qualitative exploration method of case study is used to answer our research question; can corporate governance be blamed for bank failure? This approach is not only appropriate for studying top management actions in the context of corporate failure but also well-established in the literature (Amankwah-Amoah and Debrah, 2010). Besides, there is a limited academic understanding of corporate failure phenomena (Edmondson and McManus, 2007), suggesting the qualitative approach is more suitable. UT Bank Limited is also selected as the purposive case study because it experienced bank-level demise, as indicated by purchase and assumption transaction with GCB Bank Limited on 14 August 2017.

Following Mardjono (2005), we acquire a theoretical insight into the link between corporate failure and four main corporate governance principles (i.e., accountability, integrity, efficiency, and transparency) by exploring past relevant research. UT Bank, a home-grown Ghanaian listed Bank, was used as a case study to enrich the extant corporate governance and failure literature, due in part to publicly available data on UT Bank's collapse including the annual reports and report on the Inventory of Assets and Liabilities of UT Bank Ghana Limited (In Receivership) as of 14 August 2017. Finally, following Mardjono (2005), our analysis explores four main basic principles of corporate governance under three main themes: attributes of failure, prevailing good corporate governance framework and violations of the best practices, overall, our findings suggest corporate governance failure accounted for the demise of UT Bank.

### *3.1 Data and data sources*

There is sufficient rich available information on UT Bank, which include a press release, annual reports, and industry publications (see Appendix 1). This data offers us an opportunity to track the path that ultimately steered UT Bank's demise. Finally, it should be noted that all attempts to interview former board members, top executives and managers proved unsuccessful due to the imminent investigation of these officers by the Economic and Organised Crime Office (EOCO) in Ghana. From this challenge, we first gather an annual report of UT Bank Limited from Annual Reports Ghana for the period, 2007–2014. To gather press releases Second, we use 'UT Bank Limited Ghana' and 'UT and Capital Bank Collapse' to search research databases and the Bank of Ghana website. Our search produced 98 reports and four press releases/news/reports and http://www.bog.gov.gh. To ensure the information available is within reach, the Google search engine omitted 48 items similar to those reported. To ensure the reliability of the information, we excluded 39 articles from the Google search engine due to their unscholarly nature (21), double-counting/self-reporting (4), in-active link (3), and YouTube videos/images (11). We also exclude 4 and 2 unrelated press releases from http://www.google.com and http://www.bog.gov.gh. In sum, our final data consists of eight press releases and eight financial/annual reports of UT Bank Limited (see Appendix 1).

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## 4 Results

### *4.1 Trajectories to the demise of UT Bank*

Unique Trust Bank Ghana Limited was one of the most distinguished banks in Ghana which successfully transitioned from a Non-Bank Financial Services provider to a full-fledged bank in 2009 after acquiring a major shareholding in BPI Bank. The news of its takeover by the Ghana Commercial Bank (GCB) on 17 August 2017 came as a surprise to many citizens in Ghana. Before its collapse, UT Bank in 2011 emerged as the best performing bank (Ghana Banking Awards, 2011). It implies that UT Bank was doing well in its services throughout its operation. UT bank started as Unique Trust Financial Services in 1997. It started as a provider of non-banking services. The bank acquired a substantial equity stake in BPI Bank in 2008, a commercial bank in Ghana. In May 2009, the bank commenced business after its name was changed to UT Bank. The name Unique Trust Bank Ghana Limited came about in June 2010, after UT Bank merged with UT Financial Services. The bank started trading on Ghana's Stock Exchange (GSE) under UTB as their symbol. Also, the bank had seven (7) subsidiaries including UT logistics responsible for clearing cars for collateral, UT life insurance, UT properties responsible for loan applicants' poverty valuation as well as real estate development and management, UT collections and private security, UT financial services in Nigeria, and South Africa.

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UT Bank decided to improve the face of Ghana's banking industry and as such, positioned itself as being a lending institution that provided its customers with efficient delivery of products and services. Due to the Bank's creative customer-oriented goods and services, it became one of the quickest developing banks in Ghana. They were focused on small and medium-sized enterprises' (SMEs) financial needs. In terms of

product, the bank had personal banking which was responsible for individual customer accounts, electronic banking, and business banking which was instituted mainly for the needs of SMEs. In terms of service, the bank had the treasury service, which was designed to assist customers to receive money for a business.

In 2011, UT Bank opened more branches across Ghana and subsequently emerged as the Bank of the year. In addition to this award were seven (7) including best bank – IT/Electronic banking, first runner-up for customer care, retail banking, and socially responsible bank, among others. Further, the bank was adjudged the most respected company by PWC Ghana and B&FT newspaper in 2012 (citifmonline.com). In terms of alliances, the Bank had a strategic alliance with international partners including German Investment and Development Corporation (DEG), International Finance Corporation (IFC), and the African Capitalization Fund (ACF). This strategic alliance resulted in approximately GHS 46m equity capital, resulting in total equity of GHS 25 million above the GHS 60 million minimum capital requirement of BoG. For example, the International Finance Corporation (IFC) decided to grant UT Bank a US $5 million loan and Trade Finance Guarantee Facility, in addition to its advisory services program and combined US $15 million investment equity. In total, IFC decided to invest in UT Bank for up to US $30 million. During this time, there was no representative of IFC on the board because it failed to exercise its right to nominate a director.

In 2013, the supervisory Department of BoG directed UT Bank Limited to suspend the royalty payments of GHS 350,000 per month to the UT holdings, until the consent of other significant shareholders, including the International Finance Corporation (IFC), and subsequent approval by the Central Bank of Ghana. The royalties were however approved by four (4) out of seven (7) key member stakeholders without the permission of important minority stakeholders like the IFC. Regardless of the directives given by the Bank of Ghana, UT Bank paid GHS 2.8 million as royalties to UT holdings from July to November 2014. Interestingly, the brand name licensing fees continued to be paid even when the financial performance of the Bank was abysmal, and payment for dividends did not exist. After this incident, the board of UT Bank was directed by BoG to ensure that the royalties of GHS 2.8 million paid to UT Holdings are refunded by the end of April 2016. Besides, UT Bank was supposed to write to BoG, explaining to the regulatory body why they should not be sanctioned for violating their directives.

Another issue that resulted in the collapse of UT Bank was on the disbursement of a $40 million Trade Finance Line of Credit which was reviewed by IFC. The outcome of the review exposed several lapses and breaches in the Bank's dealings. This resulted in a disagreement between UT Bank and IFC. Consequently, IFC withdrew UT Bank from their partnership list on their website and credit lines, which resulted in the serious financial crisis of the Bank. The plethora of issues made the Bank unable to publish its annual report in 2015 and 2016. This was probably due to either declining financial performance or disagreement on accounting and financial reporting issues with their auditors, Messrs Deloitte and Touche, a big four audit firm.

The Bank of Ghana, in 2017, revoked the license of UT Bank Ghana Limited (BoG, 2017). The primary reason for revoking the license of UT Bank was that the bank was extremely insolvent (Afolabi, 2017; Yeboah, 2017). Thus, their liabilities were more than their assets, putting the bank in a position where they could not meet their obligations. Poor corporate governance, coupled with high non-performing loans, was identified as critical factors leading to the bank's failure (Cann, 2017). The poor loans performance impacted adversely on the bank's capital and profit. UT Bank had a severe deficit in

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capital to adequately conduct its banking business. The decision of the Central Bank to revoke UT Bank's license was based on section 123 of Banks and Specialized Deposit-Taking Institutions Act 2016 (Act 930). As per Section 123 of the Act, "where the Bank of Ghana determines that the bank or specialized deposit-taking institution is insolvent or is likely to become insolvent within the next 60 days, the Bank of Ghana shall revoke the license of the bank or specialized deposit-taking institution". Following that, the Central Bank ordered the handover of all deposits and some particular properties of UT Bank to Ghana Commercial Bank Limited and GSE delisted them henceforth (GSE, 2017).

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### *Accountability*

1 *Failure attributes:* the board size of six was made up of the CEO, two independent directors appointed by sponsors, and three members appointed by the majority shareholders, UTH. At this point, International Finance Corporation, notwithstanding their significant shareholding of 20.28%, failed to nominate a representative on the board. These suggest that UT had an insider-dominated board, implying minority shareholders may not be able to obtain adequate and reliable information on the Bank's operations. This information asymmetry, in turn, led to the abuse of power of the majority shareholders, thereby rendering the board of UT, which met 8 times in 2014 and 4 times in other years, passive and ineffective [presence, score 1]. As the Governor of Bank of Ghana noted:

> "….though the failure of UT bank was due to significant capital deficiencies, the underlying reason was poor corporate governance practices …" (Addison, 2017, emphasis added)

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These findings are consistent with Mardjono's (2005) findings on Enron and HIH, highlighting that corporate governance in practices was imaginary.

2 *Prevailing framework:* UT's reports revealed in its framework, the Bank promoted corporate social responsibility in healthcare, poverty reduction and sports. UT Bank also recognised the need for increased accountability by having an audit, risk and compliance committee, established system of internal control, HR and governance committee. The board met eight times and also participated in a training program on Ghana's Guidelines on Anti-Money Laundering (AML) and Federal Tax Compliance Act (FATCA) [presence, score 1].

3 *Area of violations:* UT's board members disrupted accountability. There was no sense of responsibility to customers, public and minority shareholders including IFC as well as foreign lenders whose deposit and investment's market value was significantly impaired as the bank's licence was revoked and subsequently acquired by GCB [presence, score 1]. This verifies prior findings from Enron in the USA and HIH in Australia (see Mardjono, 2005).

### *Integrity*

- *Failure attributes:* non-executive directors of UT Bank also acted as consultants to the same bank, implying conflicts of interest situations (Addison, 2017). These conflicts of interest compromise their independence to discharge their oversight

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duties of firm monitoring management on behalf of shareholders. This necessitated acquisition and disposal of subsidiaries as well as related party transactions to be conducted not on a basis of open-minded decision [presence, score 1]. This is consistent with Mardjono's (2005) findings, emphasising that no proper due meticulousness was conducted on HIH's new purchase and connected party businesses followed.

- *Prevailing framework:* UT Bank's core values, reported in the annual reports from 2008 to 2014, claimed to do what is right, make commitments with care, and deliver on their promise. UT Bank highlighted the fact that everyone has value, and thus treats everyone with equal respect. Further, UT openly exposes its external directors with excellent profiles ranging from entrepreneur, accountancy, law, business, and industry experiences [Presence score 1]. This validates prior findings from Enron in the USA (Mardjono, 2005). Finally, UT Bank's annual report emphasised that

  > "Management continues to ensure that employees uphold the principles of the bank's code of conduct in the discharge of their duties. Professionalism and integrity are basic requirements for the banks' operations, and this includes compliance with applicable laws, conflicts of interest, environmental issues, reliability of financial reporting and strict adherence to laid down principles in line with best practice."

- *Area of violations:* Integrity was dishonoured partly due to the poor lending practices, weak risk management systems, and poor oversight responsibility by the boards of directors (Addison, 2017). This breach of integrity was blatant when UT Bank Limited set aside the directives from BOG in 2013, and thus, continued to pay the GHS 350,000 per month as royalties to UTH from July to November 2014 [presence, score 1]. This echoes Enron's complex accounting transactions with its numerous special purpose entities (see Mardjono, 2005).

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### *Efficiency*

- *Failure attributes:* the insider-dominated board exerted undue influence on the management of the banks, leading to poor lending practices (see Addison, 2017). In particular, the transactions with UT Bank's related parties were opaque and not structured at arms-length, contrary to what their annual report portrayed. This, in turn, implies creative accounting and misuse of funds raised motivated loan transactions from UT Bank to related parties but not efficiency. That said, the annual reports disclosed loans to directors, officers, other employees, and associate companies. The latter arguably suggests, UT Bank Limited provided the capital for setting up these numerous subsidiaries including the parent company [presence, score 1]. This confirms Enron's creative accounting practices, in particular, the transfer of assets and debt of its balance sheet to SPEs (see Mardjono, 2005).

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- *Prevailing framework:* UT Bank Limited's chairman statement, reported in the annual report, claimed risk management remains an integral part of their banking operations. Emphasising that, in reshaping their business portfolio to fit its asset, UT Bank has fully embedded across its operations a prudent risk appetite. UT Bank's core values conspicuously declared they are hardworking, efficient and responsible. UT Bank Limited, in practice, also promotes efficiency through the use of the

services of their associated and parent companies, in pursuance of its strategic direction, a loan in less than 24 hours [presence, score 1].

- *Area of violations:* non-adherence to credit management principles and procedures as the banks were heavily exposed to insiders and related parties' loans transactions. Management Accounts and PwC Review (2017), using industry guidelines, restated Loans and Advances of GHS 1.2 bn, representing 88% of the UT Bank's total assets as at 14 August 2017 to only GHS 231 m. Thus, the adjustment of GHS 919 m (76%) of net loans and advances is non-performing (loss) according to the records of UT Bank. Further, Beige Capital Limited, now in receivership, used UT Bank's investment of GHS 28.5%, representing 2% of UT Bank assets to offset a loan secured on behalf of Homan Brothers' indebtedness. There was also no evidence of interest payments on investments to related parties and directors. The investments were, therefore, impaired, but some members of the board at the time accepted the responsibility to pay off the said amount through a board resolution. IFC's review of the disbursements of a $40 million, Trade Finance Line of Credit also revealed several lapses and breaches [presence, score 1]. In this regard, the Governor of the Bank of Ghana highlighted that …

  > "The UT bank could not delineate itself from their past practices as finance houses. It followed the same practice of borrowing from high net worth persons at very high costs, without any plans to bring itself in line with the industry norm" (Addison, 2017, emphasis added)

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*Transparency*

- *Failure attributes:* like Enron and HIH, transparency was non-existent at UT Bank. Outside investors, in general, were not duly informed about the going concern issues in UT Bank, especially from 1 January 2015 to 13 August 2017. The impairment losses associated with the numerous opaque transactions with its associates, inside directors, and dominant shareholders, including royalties and selling of loans, were not faithfully reported to minority and public shareholders [presence, score 1].
- *Prevailing framework:* UT's core values consistently claimed to foster professionalism. Emphasising that, UT Bank Limited is not only disciplined but upholds excellent standards in all cases [presence, score 1].
- *Area of violations:* Management Accounts and PwC Review (2017), for example, report that customer deposits, Bank of Ghana liquidity support and interest payment have been understated by approx. GHS 67 m, GHS 77.78 m and GHS 12 m, respectively. These notwithstanding, UT Bank was quick to indicate related party transactions were at arm's length – to satisfy the investment community for continued funding for the benefits of self-seeking dominant shareholders, implying UT Bank's claim on transparency was cosmetic in its annual reports [presence, score 1.]

In sum, Table 1 displays UT Bank's condition in which the firm acts to foster accountability, integrity, efficiency, and transparency as critical elements for survival. UT Bank, however, wholly misses the mark to act in accordance with, and thus, regularly violates these principles.

**Table 1** Presence of corporate governance perspective to the study propositions – UT Bank Ghana Limited case

| *No.* | *Study propositions/corporate governance perspective* | *Accountability* | *Integrity* | *Efficiency* | *Transparency* |
|---|---|---|---|---|---|
| 1 | Failure attributes (–) | 1 | 1 | 1 | 1 |
| 2 | Prevailing framework (+) | 1 | 1 | 1 | 1 |
| 3 | Area of violation (–) | 1 | 1 | 1 | 1 |

Notes: (–) – negative propositions; (+) – positive proposition; 1 – presence.

## 5 Discussion and implications

Accountability, integrity, efficiency, and transparency are critical principles of a sound corporate governance system. A good corporate governance system is linked to firm survival. Empirical evidence, however, how corporate governance issues lead to business failure remains limited at best. This paper reviews accountability, integrity, efficiency, and transparency to examine bank failures in sub-Saharan Africa, using UT Bank as a case study. Specifically, our analysis of corporate governance-bank failure nexus highlights the propositions of failure attributes, fundamental best practice of the firm's governance, and the area of violations. Table 2 summarises the result of the presence of a corporate governance perspective to the study propositions – UT Bank Ghana Limited case. Our findings suggest that before UT Bank Limited's failure; it broadly acknowledged the need for a predominant good corporate governance framework to enhance accountability, integrity, efficiency and transparency. These predominant good governance frameworks, however, were superficial to gain legitimacy to access critical resources required for survival for the primary benefits of dominating shareholders. Like Enron and HIH, UT Bank violated the fundamental principles of best practice of corporate governance (Mardjono, 2005) and thus, failed. Violation, in this respect, means the inappropriate implementation of best practices in pursuance of financial benefits for the majority shareholders.

**Commented [t44]:** Author: Please provide Table 2.

Possible explanations are not far fetched. First, we speculate that the three out of six board members appointed by the majority shareholders are expected to take orders from their benevolent autocrat bosses who double as co-founders. Implementations of these orders during the board meetings, however, are most likely to set aside the prevailing corporate governance rules and in this way, advance and preserve the interest of the majority shareholders. This suggests that subordinates are expected to do what the boss has asked without any further justification with the existing corporate governance rules. Second, an alternate explanation of this finding is anchored on the collectivistic society of Ghana (grade of 15). From this point, we expect those three directors mentioned in the sentence above demonstrate absolute loyalty to their parent, UT holdings and related companies including UT Logistics, UT Properties, UT Collections, UT Private Security, UT Financial and UT Life Insurance, at the expense of overriding most of the prevailing corporate governance rules and regulations of the bank. Thirdly, the banking industry in Ghana is driven by competition, achievement and success. Here, success is defined as being the best in the banking sector. Here too, UT Bank branded itself as an award-winning brand from its inception to the grave (see Table 1), implying setting aside the prevailing corporate governance rules in pursuance of prestigious awards including

best Bank of the year and best bank financial performance was highly probable. Finally, supervisory weaknesses on the part of the Central Bank in part contributed to a violation of corporate governance failures including regulatory breaches, insider dealings and financial indecencies. This interpretation is in line with the findings of Boulders Advisors Limited.

### *5.1 Theoretical contributions*

The study contributes to the discourse on corporate governance-failure in the following ways. First, using the case study of UT Bank, a home-grown Ghanaian listed bank, we enrich the literature, which is presently dominated by cases from developed economies. Thus, we contribute to literature on corporate governance and corporate failure from the developing countries viewpoint. Following Mardjono (2005), our analysis explores four main basic principles of corporate governance under three main themes: attributes of failure, prevailing good corporate governance framework and violations of the best practices. Overall, our findings suggest that corporate governance failure accounted for the demise of UT Bank. These findings are not different from prior studies conducted in developed countries, even though we focus on Ghana, where enforcement of corporate governance rules is lax. Consequently, our empirical evidence from a developing country, Ghana, supports prior studies on Enron and HIH.

### *5.2 Managerial implications*

Our findings offer four implications for practising managers and boards. First, the analysis indicates that executive directors must sign and testify that the information provided by the financial institution is not misleading. Thus, the core principles of best practice in corporate governance cannot be overlooked in decision-making. This implies that managers must periodically reassess their decisions to ensure that they are following the basic principles of corporate governance, thereby enhancing survival chances. In addition, internal appraisal of adherence to the core governance principles must be done periodically to ascertain the strengths and weaknesses of the existing corporate governance framework. This appraisal must identify managers and board training needs and governance framework revision. Three, our results highlight survival as the ultimate benefit of good corporate governance. Boards of listed banks in developing countries are well instructed to develop and meticulously implement a sound corporate governance system in the four main thematic areas identified in Table 2. We argue that these principles can improve the boardroom discourse, thereby impacting positively a bank's growth, profitability and survival. Four, violation of corporate governance principles is identified as one of the significant challenges facing banks in Africa. It is therefore recommended that banks should continuously audit their compliance with their prevailing corporate governance rules. These audits should assist the board nomination committee to identify appropriate training, board capital (e.g., skills, experience, and diversity), and incentive (i.e., board equity and independence) required to enhance the board's ability to comply with best practices of good governance. Further, external audits of the board's performance and compliance to prevailing corporate governance rules are also encouraged at a 3-year interval.

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### 5.3 Policy implications

The study has several important policy implications. First, the findings also suggest that independent non-executive directors must not only dominate the board but must also sign and testify that they have discharged their board functions (i.e., monitoring and resources). A breach of this could attract fines and potential imprisonment. These will go a long way to serve as a deterrent for corporate misconduct and failure to adhere to high standards. In addition, the EOCO in Ghana should consider appointing public companies accounting oversight board charged with oversight responsibilities on external auditors. In this respect, the relevant staff of the external auditor and the Bank of Ghana supervisory unit must pay fines, if found negligent of duty. These, in turn, will enhance accountability and integrity in the banking industry.

### 5.4 Limitations and future research

Limitations of the study's approach are several. First, the study is based on one listed bank in a non-experimental context, thereby limiting our findings' generalisability and application. Accordingly, a larger sample is highly recommended for future studies. The desktop approach used to collect data is considered the main limitation of the study. This approach has affected our findings. Here, the key players of UT Bank are being investigated by the EOCO, and thus, making it legally impossible for them to be interviewed by researchers. In sum, our inability to authenticate the secondary data collected mainly from the internet and published annual reports by having an interview with the key players certainly limits the ability to generalise the findings. Therefore, future studies may think through replication from the viewpoint of top management and the board. Finally, a fruitful line for future scholars is cause-effect relationships between different board mechanisms and functions on bank failure. This, we argue, will broaden our understanding of the specific mechanisms and functions of the board that contribute significantly to bank failure or otherwise. These fruitful lines of future research notwithstanding, our present findings suggest that corporate governance should be blamed for the failure of listed banks. Nevertheless, our findings are premature, and future research is welcomed.

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## Notes

1 Estimate of governance (ranges from approximately –2.5 (weak) to 2.5 (strong) governance performance).