CHRISTIAN SERVICE UNIVERSITY COLLEGE

DEPARTMENT OF BUSINESS STUDIES

THE EFFECTIVENESS OF CORPORATE GOVERNANCE IN THE RURAL BANKING INDUSTRY: A CASE STUDY OF ATWIMA KWAWOMA RURAL BANK LIMITED

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STATEMENT OF AUTHENTICITY

We have read the university regulation relating to plagiarism and clarify that this report is our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

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Supervisor's Declaration

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ABSTRACT

The study determined the effectiveness of corporate governance in the rural banking industry. Using the qualitative approach, the study surveyed 70 respondents through a researcher-made questionnaire, interview and observation. Statistical techniques include SPSS and Microsoft excel. Atwima Kwanwoma Rural Bank located at Pakyi No. 2 was selected as case study with three of their branches used. The purpose of the research is to ascertain the effectiveness of corporate governance in the separation of the business ownership from management and also to find out about customers' interest protection.

This study revealed how the bank meets its obligation of accountability to their shareholders taking into accounts the interest of other recognized shareholder, the study further revealed that management members acknowledged the fact that the board meets regularly with senior management and internal audit to review policies, establish communication lines, ensure accountability and monitor progress towards corporate objectives.

Again the research also revealed that there is the existence of conflict of interest in the organization and this is managed or avoided by clearly defining the organizational structure, segregation of duties and the documentation of policies.

Finally, it was also revealed that the Board had policies in place to deal with the possible risks that the organization is likely to encounter. Those policies include: credit management policy, disaster recovery policy and operational guidelines.

In conclusion, it was revealed that there is an existence of corporate governance and the proper mechanisms to ensure the effective implementation of the policies of the organization. However,

from our observation, it was discovered that there are no proper monitoring tools to ensure the effective implementation and maintenance of the organizational policies.

DEDICATION

We dedicate this work, first and foremost, to the most high God who granted us abundant grace and wisdom in carrying out this work and secondly to our families for all their support in our education. We hope we have made you proud beyond measure.

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TABLE OF CONTENTS **Pages**

	LIST OF FIGURES	PAGES

CHAPTER ONE

INTRODUCTION

1.0 Background

Corporate governance refers to a system whereby shareholders, creditors, and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global market place. It is about promoting corporate fairness, transparency, and accountability.

As a system, it consists of rules that define the relationship between shareholder, manager, creditor, the government and the stakeholders, and a set of mechanisms to enforce these rules directly or indirectly. It assigns final authority and full responsibilities to the Board of Director. Collectively, the Board takes responsibility for the corporation and uses key principles to maximize shareholder's value.

The corporate governance framework is designed to protect shareholder's rights; ensure the equitable treatment of all shareholders, including minority and foreign shareholders; recognize the rights of stakeholders as established by law and encourage active cooperation between corporation and stakeholder in creating wealth, jobs, and the sustainability of financially sound enterprise; ensure a timely and accurate disclosure of all matters regarding the corporations, including the financial situation, performance, ownership, and governance of the company; and ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. Given the responsibility of directing and controlling companies and implementing corporate governance mechanisms, the board is expected to handle efficiently the following functions: The board should act, in good faith, with due diligence and care, and in the best interest of the company and the shareholders;

The board should treat all stakeholders fairly; The board should ensure compliance with applicable law and take into account the interest of stakeholders; The board should exercise an objective and independent judgement on corporate affairs, particularly that of the management; The board member should have access to accurate, relevant, and timely information for them to fulfil their responsibilities. For the board to carry on its functions more effectively, implement corporate governance mechanisms, and protect the interests of all stakeholders, its members should commit themselves to the tasks delegated to them.

The corporate governance system in the rural banks is mainly a rational western model recommended by the World Bank and implemented by the Central Bank of Ghana. Under this model, corporate governance is expected to be maintained externally through regulatory agencies (the Central Bank of Ghana and the Association of Rural Banks) and internally through the respective Board of Directors.

Rural banks are a network of 127 independent unit banks in Ghana. They are regulated by the Bank of Ghana and thereby form part of the regulated financial sector in Ghana. These banks are the largest providers of formal financial services in rural areas and also represent about half of the total banking outlets in Ghana (IFAD 2008). By the end of 2008, these banks together had 421 branches. Including head offices, there were 548 service delivery locations spread throughout the country. All administrative regions have at least one bank, although most are located in the Ashanti, Western, Eastern, and Central regions. Rural banks are relatively small financial institutions with average share capital of GHc 136,526 (US$105,263), average deposits of GHc 2.3 million (US$1.77 million), and average assets of GHc 3.8 million (US$2.4 million). Values of the three indicators, however, vary significantly.

Out of the 127 rural banks,75 percent have assets between GHc 1 million (US$771,010) and GHc 8 million (US$6.1 million), 20 percent have assets of less than GHc 1 million, and 5 percent have assets over GHc10 million (US$7.7 million).Similarly, 44 percent of rural banks have share capital of less than GHc 100,000 (US$77,101) and only 6 percent have share capital of more than GHc 250,000(US$192,753).As a network, rural banks have achieved a remarkable level of service delivery and financial performance. At the end of 2008,they had deposits of GHc343.9million (US$265.1 million)from more than 2.8 million clients, and loans and advances of GHc 224.7 million (US$173.2 million) with about 680,000clients. They delivered 128,875 domestic money transfers worth around GHc 63.3 million (US$48.8 million) in 2007 and 32,392 international money transfers worth GHc 9.3million (US$7.1 million) in 2008.They also facilitated check transactions worth GHc 993.7 million (US$766.1 million) in 2008. Rural banks made a consolidated profit of GHc 15.6 million (US$12.0 million) in 2008 and had a consolidated net worth of GHc 62.3 million (US$48.03 million). Several have excelled in performance, both within the financial sector and in the broader private sector. Some rural banks have figured more than once in Club 100, a group of 100 Ghanaian institutions recognized annually for business excellence. Several challenges, however, remain. The Bank of Ghana (BoG) rated the performance of 17 of the 127 rural banks in operation as mediocre, based on capital adequacy, and it categorized 5 banks as distressed. Among the banks whose performance is categorized as mediocre, 6 rural banks have negative net worth. The Apex bank of the network, which was created primarily to provide services to rural banks, is not yet fully financially self-sufficient and has inadequate resources to effectively perform its functions. The Bank of Ghana (BoG), which is primarily responsible for supervising rural banks, is constrained in effectively performing its supervision role because of political and civil society pressures, resource constraints, and limited delegation of supervisory functions to the Apex Bank.

Rural banks are incorporated as limited companies under the Companies Code of 1963 (Act 179) of Ghana and are required to be owned by shareholders from the local community in which they operate. At first, the Bank of Ghana owned up to 43 percent of shares in rural banks as preference shares. This practice was stopped in the 1990s. In the early years of rural banks, the shareholding levels for an individual and a corporate body were capped at 10 percent and 30 percent, respectively. These levels have been revised to 30 percent for an individual and 50 percent for a corporate body. An identifiable group can also own 40 percent shares in a bank. The governance structure of a rural bank comprises a board of directors that represents shareholders within the bank and supervises the management of the bank. Boards of directors are elected by the shareholders from the communities where the banks are located. Election of board members takes place during annual general meetings (AGMs). Directors are elected on the basis of their reputation in the community and professional qualifications. The individuals nominated by the shareholders are validated by the Bank of Ghana before assignment is effective. The board elects a chairperson and a vice chairperson from among the directors. In many cases, the chief executive of the bank serves as the secretary of the board. A board member is elected for a three-year term but can be re-elected for an unlimited number of terms by the shareholders. At every AGM, one-third of the board members need to retire but are eligible for re -election, in accordance with the Companies Code of Ghana. However, a sample analysis of 10 Board of directors of rural banks showed that the average number of years spent as a board member is 11; the maximum was 32 and the minimum was 1 year. The minimum size of a board is five, and the maximum is 11.

Although the number of directors with voting rights cannot exceed the maximum allowed size, additional individuals can participate as co-opted members. Based on a sample analysis of 10 rural banks, only 9 percent of the directors are women. The sample analysis also showed that a limited number of directors have experience in banking. The board of a rural bank has three to five supervisory subcommittees covering the main aspects of managing and operating the bank. Members of the supervisory subcommittees are elected from the board based on specialization and interest. The following are the main subcommittees and their respective responsibilities: portfolio quality; follows up on previous meeting actions; reviews reports from supervisory subcommittees of the board; and undertakes strategic decisions and guidance for management. The minutes of the meetings are recorded and submitted to the Bank of Ghana for monitoring and information purposes. Shareholder services—such as share registries that are essential to attract investors—are weak in rural banks. Share registries of many rural banks are not up to date. (Source; Agriculture and rural development discussion paper 48, Rural Banking: The Case of Rural and Community Banks in Ghana, www.worldbank.org/rural).

1.1 Statement of the Problem

OECD(2004) states that "The presence of an effective Corporate Governance system, within an individual company and across an economy as a whole helps to provide a degree of confidence that is necessary for the proper functioning of a market economy……".

Central to proper functioning of the rural banking industry, banks ownership must be separated from its management so as to pave way for future growth, increase the degree of confidence and also to maximise shareholder's wealth.

Rural Banks were set up to play a financial intermediary role. This role involves mobilising deposits in the catchment areas of each rural bank and granting credit to deserving customers in the same catchment areas. The mission of rural banks was therefore to serve as instruments for fostering rural development.

The rural banks businesses are expected to be operated along certain principles to ensure proper governance. The most widely used and accepted corporate governance principles known as the Cadbury's code of best practices recommended by Adrian Cadbury includes;

- Auditing
- Board and management structure and process
- Corporate responsibility and compliance
- Financial transparency and information disclosure
- Ownership structure and exercise of control rights

The effective implementation of the above codes and principles would ensure proper governance in an organization.

The rural banks over the years as assumed have not performed as it was expected and therefore, this research seeks to test the effectiveness of these corporate governance principles and codes of best practices to ascertain its impact in the abysmal performance of the rural banking industry.

The general observation in our society is that rural banks have not been able to deliver on their mandate in terms of growth sustainability and improvement of the living standard of the people in the catchment areas. This research therefore, seeks to test the compliance of rural bank to corporate governance mechanism. This also ensures the growth and the sustainability of banks. Through effective auditing, board and management structure and process, corporate responsibility, objectives and compliance, financial transparency and information disclosure, ownership structure and exercise of control rights.

1.2 Research Objectives

- To find out whether the board of directors meet the obligation of accountability to their shareholders and take into account the interests of other recognised stakeholders.
- To ascertain whether the board aligns corporate activities to best practices of governance and behaviour with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations.
- To find out whether the board of directors protect the interests of depositors.
- To look at any problem the bank can run into in implementing the best practices.

1.3 Research Questions

- How do the board of directors meet the obligation of accountability to their shareholders and take into account the interests of other stakeholders?
- In what ways do the board align corporate activities and behaviour with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations?
- In what way do the board of directors protect the interests of depositors?
- How does the organisation look at any problem the bank will run into in implementing the best practices?

1.4 Significance of the Study

This study aims to inform and educate the general public on the effectiveness of corporate governance in the rural banking industry. This study will also help people to know how corporate governance impacts positively or negatively on the rural banking industry.

This study will also enable people;

- To ascertain how rural banks operate and the advantages they gain from these rural banks through effective corporate governance.
- To make suitable policy recommendations about effective governance in the rural banking industry.
- To add to secondary academic data as future reference materials.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter shows what has already been done by other researchers on this topic and its related topic. The literature is reviewed on the following themes, the structure and performance of the rural banks, the impact of corporate governance in the rural banks, the role of corporate governance in risk management and rural banks operations and rural finance in Ghana.

2.1 Cadbury's C ode and User Practice

Principles of corporate governance

Contemporary discussions of corporate governance tend to refer to principles raised in three documents released since 1990: The Cadbury Report (UK, 1992), the Principles of Corporate Governance (OECD, 1998 and 2004), the Sarbanes-Oxley Act of 2002 (US, 2002). The Cadbury and OECD reports present general principals around which businesses are expected to operate to assure proper governance. The Sarbanes-Oxley Act, informally referred to as Sarbox or Sox, is an attempt by the federal government in the United States to legislate several of the principles recommended in the Cadbury and OECD reports.

- Rights and equitable treatment of shareholders: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.
- Interests of other stakeholders: Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders,

including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

- Role and responsibilities of the board: The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment

- Integrity and ethical behaviour: Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.
- Disclosure and transparency: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Codes and guidelines

Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. As a rule, compliance with these governance recommendations is not mandated by law, although the codes linked to stock exchange listing requirements may have a coercive effect. For example, companies quoted on the London, Toronto and Australian Stock Exchanges formally need not follow the recommendations of their respective codes. However, they must disclose whether they follow the recommendations in those documents and, where not, they should provide explanations concerning divergent practices. Such disclosure requirements exert a significant pressure on listed companies for compliance.

One of the most influential guidelines has been the 1999 OECD Principles of Corporate Governance. This was revised in 2004. The OECD guidelines are often referenced by countries developing local codes or guidelines. Building on the work of the OECD, other international organizations, private sector associations and more than 20 national corporate governance codes, the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has produced their Guidance on Good Practices in Corporate Governance Disclosure. This internationally agreed benchmark consists of more than fifty distinct disclosure items across five broad categories:

- Auditing
- Board and management structure and process
- Corporate responsibility and compliance
- Financial transparency and information disclosure
- Ownership structure and exercise of control rights

Source; Cadbury, Adrian (2002) Corporate Governance and Chairmanship: A Personal View, Oxford: Oxford University Press.

2.2 Rural Banks Operations and Rural Finance in Ghana

- Rural Banks are unit banks which are owned and managed by residents in a community. They are registered under the Company's Code and are licensed by the Bank of Ghana to engage in the business of banking. Being unit banks, they are not allowed to open branches but are permitted to open agencies within their catchments areas for the purpose of mobilizing deposits.

- The basic functions of Rural Banks are the mobilization of savings and the extension of credit to deserving customers in their areas of operation. It is also the belief of the Central Bank that through their financial intermediation roles, Rural Banks will act as catalysts for economic development in rural Ghana.
- A lot of progress has been made since the first rural bank was established in 1976. Deposits have been mobilized, loans have been granted, the habit of savings and thrift have been inculcated in the minds of our rural dwellers, jobs have been created for our rural people as managers, accountants, project officers, cashiers, drivers, cleaners, etc. In addition, Rural Banks have developed products that facilitate fast and reliable means of moving funds from one part of the country to another through the extensive network of Rural Banks in the country.
- These are all very noble achievements. But it has not been all glowing. There have been many problems. Out of the 137 Rural Banks currently operating in the country, approximately 70 have been classified as operating satisfactorily by the Central Bank. The performances of 50 have been described as mediocre and the rest will need close monitoring and nurturing to avoid being closed down by the Central Bank.
- Rural communities have the capacity to create and manage their own financial institutions. In Ghana, rural communities created hundreds of such institutions with very little direct financial support from the government. A financial operation that aims to be profitable requires a varied ownership structure, which is lacking in the rural banking system in Ghana. The growth of the network is constrained by the rural banks location-specific ownership structure, which limits the ability of the institutions' managers and owners to propose mergers and acquisitions to stay profitable and efficient.

- The initial poor performance of rural banks stems from both an unfavourable operating environment and capacity constraints. Factors causing poor operating environments include an absence of clear prudential regulations, both financial and nonfinancial, and excessive directed lending requirements, which limit flexibility in managing risk exposure. Although capacity constraints in rural areas limit the scope of operation of local financial institutions to some extent, targeted investments in building the capacity of service providers can have positive payoffs. This finding suggests that initiatives to build local financial institutions should have significant capacity-building components. Small local financial institutions often cannot easily procure inputs such as training and specialized technical assistance for product development and setting up of operational systems from the market to be able to produce viable outputs (in terms of service and products) either because the supply of such specialized inputs is constrained or because the institutions do not have the scale to obtain these services individually at a minimum cost.
- Hence, initiatives to build local financial institutions will also have to support the creation of strategic alliances such as the Apex Bank that can either provide such services or facilitate their cost-effective provision. The creation of the Apex Bank also shows the challenges that such an institution faces in ensuring financial sustainability while providing low-cost services. Realistic measures to ensure sustainability should be identified and clarified at the earliest stages to help formulate the business and revenue model for the apex institution.
- The financial sector in Ghana is becoming increasingly competitive. In addition to the universal banks extending their services to the rural areas through their branch networks, there are institutions like Savings and Loans Companies, Finance

Companies, Credit Unions, Susu Companies, Mutual Funds all of which are in the business of mobilizing deposits and granting loans.

- Products and Services

Savings; Rural Banks savings products include regular savings accounts, current accounts, susu deposits and fixed or time deposits. In the sample of 12 Rural Banks, regular savings deposits account for about 58 percent of the total number of clients' and57 percent of the total deposit balance. These accounts are small in size and short term. The interest rate for regular savings is low and is paid only once a balance reaches a certain amount (usually higher than the balances held by most savers). Many rural clients have access to this type of account; unlike other commercial banks, Rural Banks do not require a high balance to open an account. Susu is the second-largest account type, representing 21 percent of total clients, but its share of total deposits is only 11 percent because of the small size of each account. Fixed and special deposits that offer higher interest rates with a long-term deposit contract represent only about 1 percent of total number of clients.

Credit; the credit products offered by Rural Banks include microfinance loans, personal loans, salary loans, susu loans, and overdraft facilities. In the sample of 12 Rural Banks, salary loans account for 33 percent of total advances, followed by personal loans (24 percent) and microfinance (20 percent). In terms of the number of borrowers, microfinance accounts for 31 percent of total borrowers followed by personal loans (26 percent) and salary loans (22 percent). Rural Banks loans are used for agriculture, cottage industries, and trading. Microfinance loans are categorized under trading, which accounts for 41 percent of the total sectors financed. Agricultural loans are reported to account for about 9 percent of loans, but this figure is an underestimate given that a significant portion of the loans reported as microfinance and personal loans are actually used for agricultural production.

Money Transfer and Payments**;** Rural Banks offer money transfer and payment services to their clients in collaboration with the ARB Apex Bank. RCBs participate in local and international money transfers through, among others, Western Union, Money Gram and Vigo. Government agencies use the Rural Banks service outlets for salary and pension deposits. Clearing of checks for cocoa purchases is also an important service provided under the payment category.

(Source; Ghana-microfinance.com, business.myjoyonline.com).

2.3 Structure and Performance of the Rural Banking Industry

Legislation and regulations governing the rural banking industry in Ghana have evolved with the market, both opening up possibilities for new types of institutions and tightening up to restrain excessive entry and weak performance in the face of inadequate supervision capacity. The result – though not entirely by conscious design– is several tiers of different types of Rural Banks with a strong savings orientation and a much greater role of licensed institutions relative to NGOs than is found in many countries. Rural Banks are accommodated in the Banking Act; savings and loan companies in the Non Bank Financial Institutions (NBFIs) Law and credit unions under a new law being prepared to recognize their dual nature as cooperatives and financial institutions.

The informal sector is dominated by a variety of savings-based methodologies, both individual and group. Supervision of a large number of Rural Banks is costly relative to their potential impact on the financial system and the Central Bank has adopted a number of strategies to cope with its limited supervision capacity: raising reserve requirement for Rural

Banks to a high percentage drastically raising the minimum capital requirement for NBFIs; and permitting self-regulation of credit unions by their apex body. It is currently establishing an Apex Bank to serve the Rural Banks, link them more effectively to the commercial banking system, and take the lead in building their capacity and, eventually, in undertaking front-line supervision. Although the US$2 million minimum capital requirement makes the Savings and Loans less accessible for private transformation, it has led to introduction of foreign capital.

While the Rural Banks have had limited outreach, some have effectively partnered with NGOs to introduce microfinance methodologies such as village banking, and they are now being strengthened as the backbone for expansion of rural financial services. Linkages also occur between informal savings-based "susu" institutions and both Rural Banks and Savings and Loans. The Bank of Ghana has taken a relatively liberal position in the informal sector. Liberalization of financial policies in the late 1980s has enabled Rural Banks to develop with relatively little interference, and without a clearly articulated national strategy.

Nevertheless, continued high inflation and interest rates (particularly on Treasury Bills) has limited the incentive for commercial financial institutions to reach out to smaller and deprived clients.

Furthermore, directed, subsidized loans under government poverty reduction programs threaten to undermine loan performance and weaken the long-run potential for developing sound, self-sustaining Rural Banks on a significant scale.

While Ghana's approach has yielded a wide range of Rural Banks and products with the potential for substantial outreach to the poor and sustainability based on savings mobilization, it has also permitted easy entry of institutions with weak management and internal controls.

Ghana's experience demonstrates the difficulty of striking the right balance between encouraging entry and innovation on the one hand and establishing adequate supervision capacity on the other. In several segments – Rural Banks, Credit Unions, Savings and Loans – Ghana has gone through a cycle of easy entry, weak performance, tightening up regulations, and some restructuring. The Bank of Ghana has exercised considerable regulatory forbearance in allowing weak units time to comply with stricter regulations (or, in the case of the credit unions, to establish a self-regulating system while awaiting passage of a new law).

On the whole, this approach appears to have succeeded in giving Ghana a very diverse, reasonably robust system of Rural Banking Industry, with relatively little cost in terms of outright failed institutions (and lost deposits) and moderate drain on supervisory resources. Nevertheless, the system has failed to achieve impressive outreach, especially to the rural poor, and remains burdened by a number of weak units that the regulatory authorities are not well equipped to turn around. (Source; www.modernghana.com).

2.4 The Role of Corporate Governance (The Board) in Risk Management

Effective strategic planning considers associated risks and management plan for managing those risks. Creating shareholder value involves taking risk, but risk can be a double-edged sword; too little risk can be as dangerous as too much. Risk then is the flip side of opportunity and it is important for the board to determine the risk culture or at least set parameters to define the culture. The board has two roles in this regard. Firstly, is has to ensure that the organisation has in place a defined method for identifying, measuring and mitigating risks and the potential impact. Secondly, to make sure that it is informed of the most significant risks and the actions taken to correct it. Best practice would suggest that the identification of the risk matrix should take place as part of the strategic planning process.

This would ensure the alignment of the strategy with objectives and the risk control matrix. This would involve the strategic initiatives by business segment and the risks related to each of these objectives. In the process, management would identify the various factors that could go wrong and or the critical success factors required for the plans to be achieved. This process should lead to the enumeration of the key risks and the risk mitigation devices required minimising their impact. Whilst easy in theory, this process is fraught with difficulties of estimation and judgement. Often the risks are inadequately articulated or alternatively, the risk mitigation devices inadequately deployed. The objective of this process is to establish a risk framework and more importantly, a risk culture. This unstated risk culture is of particular importance, since line management is responsible for the day-to-day execution of the risk management function. It is therefore critical that there is good communication and accountability and that the performance measures support and reward this process.

The core of corporate governance in the financial sector is that of risk containment, early warning signals and prompt corrective action. It is about risk assessment and providing adequately to cover risks. Simply put, the earlier one detects a problem, the lower the costs. However, this is only possible with a viable and accountable corporate governance structure. (Source; www.google.com; the Barbados Institute of Banking and Finance, April 15 and 16, 2003).

2.5 The Role of the Board in the Formulation of Corporate Strategy

A study on bank failure published by the Controller of the Currency Administration of National Banks (1988) identified the quality of management as the key differentiator between success and failure of financial institutions. From this perspective, therefore, the board has a critical role in the strategic process and this involves an environmental scan to determine the domestic and international trends that will influence the financial institution, a determination of the opportunities and threats, and a clear understanding of the strengths and weaknesses of the organisation.

The board's role is to review the options and add the concept of difference. The challenge, however, is to identify what is a viable option. Invariably, one knows if the decision is correct five years later, by which time it is too late. Therefore, the board must challenge management to defend the policies that it is putting forward and the reasons why it should accept option .A. as opposed to option B. The board must also ask management to articulate and define the various risks and alternative strategies available to mitigate risk. The board, therefore, is expected to probe management, but not to take an active role in the management of the business. As we examine the various legislative developments taking place internationally, the board in all instances is expected to have a more active role and ensure that there are checks and balances within the organisational hierarchy. Checks and balances imply that there is an appropriate decision-making forum at the management level, responsibilities are adequately identified, the reporting system is clearly set out and the performance management systems report straight to the board.

(Source; www.google.com; the Barbados Institute of Banking and Finance, April 15 and 16, 2003).

2.6 Board of Directors and Their Functions

The board of directors constitute the highest authority in a rural bank. It is charged with the responsibility of formulating policies and giving guidance to management in the successful pursuit and fulfilment of a bank's mission and vision. The board has a responsibility to protect and safeguard the assets of a rural bank. It appoints the chief executive officer/manager, and monitors and evaluates his performance as well as other senior management and staff. The board approves the short- term plan and objectives set by management and ensure the effective planning and setting of long-term goals. The board also monitors the operations of a rural bank by evaluating its performance vis-à-vis the performance of other competitors in the industry.

Other functions performed by the board of a rural bank are as follows:

- It reviews, discusses and approves the financial estimates and capacity building programmes of a rural bank.
- It organizes and supervises the annual general meetings of shareholders.
- It ensures that compensation and incentive policies and packages given to staff are consistent with a rural bank's objectives, strategies and control environment.
- It also ensures that a rural bank operates under the required laws and regulations of the country.

The above roles and functions are obviously very crucial in shaping the present and future performance of a rural bank. It therefore goes without saying that men and women who are appointed to serve on the boards of rural banks must not only be people of integrity but must also be people who are knowledgeable in the management and operations of rural banks.

To facilitate the attainment of this objective, the Bank of Ghana has instituted a policy that directs the board of each rural bank to have an accountant, an economist or a banker or a balanced mix of professionals on a board. This is to ensure that there will be in-depth discussion and thorough diagnosis of the financial health of a rural bank at board meetings. This is a necessary precaution because the practice where the Bank of Ghana seconded staff to represent it on the board of a rural bank has long been stopped.

If the quality of discussions/deliberations on the board of a rural bank is going to be high and relevant, then the right calibre of people should be appointed to serve on the board.

Most of the problems encountered in the initial stages of rural banking were due to lack of understanding and appreciation of what it takes to successfully manage a rural bank. A board's role is to formulate policies to govern the operations of a rural bank. If those formulating policies to govern the operations of a rural bank. If those formulating policies are deficient in any way, then the performance and growth of the rural bank will be adversely affected. (Source; Rural Banking in Ghana, Emmanuel Asiedu-Mante, April 2011.)

2.7 On –Site Supervision of Rural Banks

As indicated elsewhere, rural banks are governed by the Banking Act , 2004 (as amended by Act 738) which requires that every bank in Ghana be examined, at least, once annually (sec. 54(1), Act 673). The Bank of Ghana has been fulfilling this responsibility since the inception of rural banking.

On-site examination of rural banks involves the visit of a team of bank supervisors over a period of 3-10 working days during which the supervisors review the books of accounts, board minutes and other records of a rural bank as well as its operations, after which a report is compiled detailing the findings, conclusions and recommendations of the team. The supervisors conduct a post-examination conference with key management staff and directors of a rural bank during which they share their findings and perspectives with officials of a rural bank.

Currently, on site teams compile two reports as their output from the on site visit: The Bank Examination Report and the Supervisory report. The Bank Examination Report details the violations, exceptions and procedural lapses (of laws regulations and banking practice) noted during the examination and a set of recommendations for addressing these violations, exceptions and lapses. The report also provides a rating of a rural bank based on five key parameters, namely; Solvency, Liquidity, Earnings, Management and Systems and Controls

(SLEMS). The Supervisory Report, on the other hand, details the major findings and conclusions of the examiners with regard to the financial standing and management of the institution. These reports are subsequently reviewed by senior management at the Bank of Ghana and the Examination Report sent to the Bank for its study and reaction to the findings, including a time frame for actions to address the exceptions noted. The Supervisory Report is for the information of the top management at the Bank of Ghana as well as for the guidance of the next on-site team.

Whilst on-site supervision of rural banks remains one of the potent tools for the supervision and control of the operations of rural banks, it continues to pose a major challenge to the bank of Ghana in terms of the demand on supervisory resources. On-site visits afford supervisors the opportunity to check the accuracy of prudential returns, to review the actual operations of a bank and to interact with staff and directors, affording a better view of operations not adequately captured in the prudential returns. However, the number of staff and the logistics required to do this is expensive, given the growing number of rural banks and the central bank's supervisory responsibilities with regard to the universal banks and the non-bank financial institutions.

The bank of Ghana is forward to delegating its responsibility for on-site supervision of rural banks to the ARB Apex Bank in due course when the latter has developed the capacity to do so. In this regard, the ARB Apex Bank has started with a nucleus of bank inspectors who are undergoing orientation and training in preparation to commerce on-site monitoring of rural banks. It is likely that when this scheme is up and fully running the Central Bank will focus on reviewing the work of the ARB Apex Bank, including its inspection/oversight role of rural banks. The Central Bank may from time-to-time visit a sample of rural banks in fulfilment of its supervisory role over all banks.

Needless to say, on-site supervision has been one of the effective tools the Central Banks has used to steer the affairs of rural banks. On-site supervision has not only been one of the most potent means of unearthing malpractices at these banks but has also helped to identify operational weaknesses. Most of Bank of Ghana's interventions in the affairs of rural banks have arisen from findings and recommendations emanating from examination reports. (Source; Rural Banking in Ghana, Emmanuel Asiedu-Mante, April 2011.)

2.8 The Legal, Regulatory and Supervisory Framework Governing Rural Banks

Under the Banking Act, the BoG has overall regulatory and supervisory authority in all matters related to banking institutions in Ghana. Rural banks are incorporated as limited liability companies and licensed by the BoG within the framework of the Banking Act.

Licensing requirements

Minimum paid up capital of GH¢150,000

Ownership of shares by residents

Operations within a radius of about 25miles.

Prudential requirements

Minimum paid-up capital of GH¢150,000

Capital adequacy ratio of 10 percent

Liquidity reserve ratio of 43 percent

Exposure limits of 25 percent for secured loans, 10% for unsecured loans and 2% for loans to members of the board of directors.

Tax requirements

Corporate income tax rate of 8%

Value-added tax of 15%

(Source; BoG and ARB Apex Bank)

Supervision

The Bank of Ghana supervises rural banks through its Banking Supervision Department (BSD). The BSD supervises operations of rural of rural banks through on-site inspection, inspection, issuance of administrative directives, and attendance of rural bank annual general meetings. Rural banks are required to submit monthly, quarterly and annual returns on variety of financial and non-financial indicators. The Bank of Ghana can penalise rural banks for non-submission, incomplete submission, delayed submission, or inaccurate submission of any of these returns.

The Apex Bank's role in supervision

To help address the challenges of supervising RCB's a law enacted in 200615 allowed the Bank of Ghana to delegate some of its supervisory functions to the Apex Bank, as follows:

1. Maintain primary cash reserves of the rural community banks in accordance with relevant rules, regulations and policies;
2. Monitoring, inspects, examine and supervise rural and community banks in accordance with relevant rules, regulations and policies.
3. Lend to rural and community banks facing temporary liquidity problems; and
4. Provide specie management and specie movement services.

Although the ARB Apex Bank currently performs all the supervisory functions envisaged for it under the 2006 regulations, the BoG continues to carry out both on-site and offsite supervision. The full delegation of powers has been constrained by structural, capacity and resource constraints.

Structurally, since the ARB Apex Bank is owned by the RCB's, its autonomy to supervise its members has been called into question. It is has limited capacity to undertake off-site supervision, partly because of resource constraints. The Apex Bank neither has access to any funds from the BoG or GoG to perform this task effectively; nor can it recover the costs from rural banks because regulations do not require rural banks to pay for supervision costs. (Sources; Business and Financial Times, October 17, 2011, The case of Rural and Community Banking in Ghana; Ajai Nair and Azeb Fissha, Rural Banking in Ghana; Emmanuel Asiedu-Mante, April 2011.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

Panneerselvam (2004) defines research methodology as a system of models, procedures and techniques used to find the results of a research problem. Research methodology is more about your attitude to and your understanding of research and the strategy you choose to answer research questions.

3.1 Study Setting or Area

Atwima Kwanwoma Rural Bank Limited (AKRB) started operations from a rented structure at Pakyi No. 2 18km from Kumasi on the Obuasi road in the Ashanti region. It is the 68^{th} rural bank to be licensed by the Bank of Ghana. Twenty –eight years on Atwima Kwanwoma rural bank has its own state –of-the-art Head Office complex for administration purposes and a banking hall for operations at Pakyi No.2. Atwima Kwanwoma continues to get close to its customers through branch expansion.

Plans are far advanced to open a branch and a mobilisation centre within the sub-urban of the metropolis before the year ends, adding to existing branches at Pakyi, Santasi, Old Tafo, New Tafo, Ayigya and Atonsu. The locals engage in occupations such as farming, trading, hairdressing tailoring and dressmaking among others and with Atwima Kwanwoma rural bank in the area, most of the locals engage in their services.

Population according to Saunders, (2007) is the full set of cases from which a sample is taken. The target population is the customers in the area of Atwima and the operational workers in the area. The population of Atwima Kwanwoma currently stands at 6757 according to the 2010 Population and Housing Census held in Ghana.

3.2 Sample Size and Sampling Procedure Data

A total sample size of seventy (70) was used and the sampling procedure data used was the convenient sampling.

3.3 Collection Techniques, Data Analysis and Presentation

Collection techniques involve techniques or methods that the researcher tends to use to collect data to ensure that the appropriate information needed to solve the research problem is acquired. The method used in this research was the qualitative approach. This would include the use of interviews, questionnaires and observation techniques. An interview is a conversation with a purpose. It is one initiated by the interviewer for the specific purpose of obtaining research-relevant and focused by him on content specified by research objectives of systematic description, prediction or explanation. (Cohen and Manion, 1989).

A questionnaire is a written list of questions that is answered by a number of people so that information can be collected from the answers. (Oxford Advanced Learner's- 6th edition). Observation involves the act of watching somebody or something carefully for a period of time especially to learn something. (Oxford Advanced Learner's- 6th edition).

The reason for the choice of interviews, questionnaires and observation as collection techniques is that; it is a flexible and adaptable way of finding things out. Asking people directly about what is going on is an obvious short cut in seeking answers to our research questions.

The data would be analysed and presented through the use of SPSS and Microsoft excel. Charts would also be used for various illustrations during the analysis of the data.

3.4 Data Collection Procedure

Seventy questionnaires were used, one for each person or respondent, with the total sample size being seventy (70). If the respondent were illiterates, the questions were read for them to answer otherwise; they were ably answered by the other respondents. Overall, equal chances were given to every respondent in order to get a fair or a balance response from the male and female locals.

Interviews and observation was also used in the gathering of information.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

This chapter analysis and presents the research findings of the survey conducted among some management, staffs and customers of Atwima Kwawoma Rural Bank Limited on the topic "The Effectiveness of Corporate Governance system in the rural banking industry; A Case Study of Atwima Kwawoma Rural Bank Limited". Data collection was done by the use of questionnaire and interview. Seventy questionnaires were administered to a section of customers of Atwima Kwawoma Rural Bank Limited from six (3) of their branches in Ashanti Region as well as, information from the rural folks who deal with these banks. The data were analysed and presented by descriptive statistics, including frequency tables, bar charts and pie charts using the Statistical Package for Services Solutions (SPSS) and Microsoft Excel.

4.1 Respondent's Background

The respondent's background covered the following attributes: age, gender, marital status and level of education. out of a total number of seventy (70) questionnaires, sixty-seven (67) were received, exactly 14 percent were captured in the 15-29 age bracket, 22 percent of the respondents were captured in the 30-39 age bracket, 14 percent of the respondents were captured in the 40-49 age bracket, 8 percent of the respondents were captured in the 50 and above age and 9 percent were no responds. This explains that majority of the 30-39 ages in the catchment area service with the bank. Table below gives the detailed outcome of the survey.

Table 4.1.1

Age

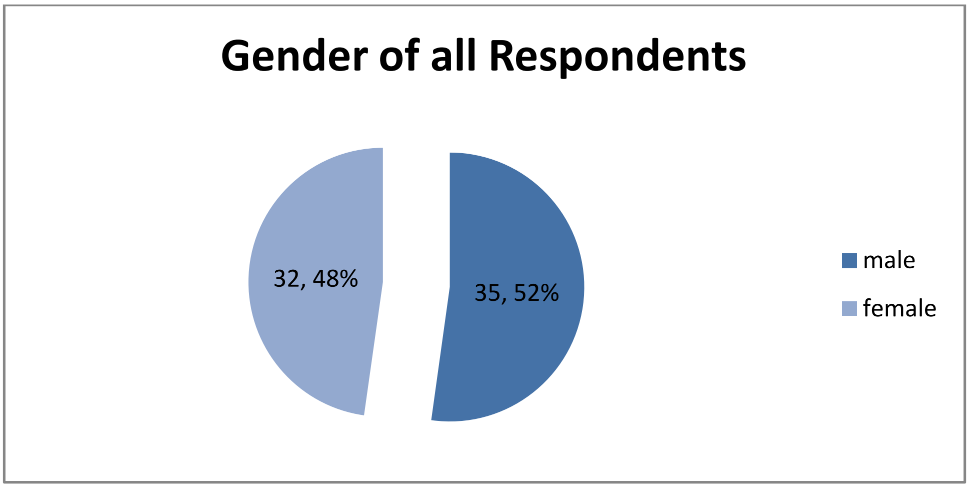
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15-29	5	18.5	18.5	18.5
	30-39	12	44.4	44.4	63.0
	40-49	5	18.5	18.5	81.5
	50 and above	2	7.4	7.4	88.9
	no response	3	11.1	11.1	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

Gender of Respondents

The survey further revealed that 35 percent of the respondents captured were males, as against 32 percent female respondents. Again, this explains that the males in the catchment area of the bank control a larger chunk of the financial resources; the impact of the bank is most felt by the male folks. This might be a contributory factor to the feminization of poverty in the rural areas of Ghana. The chart below gives the detailed outcome of the survey.

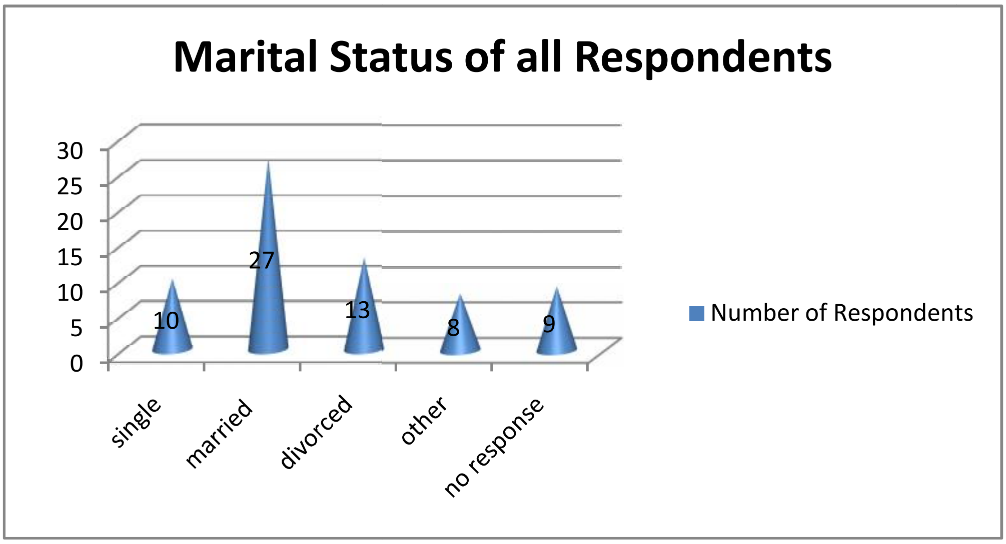
Figure 4.1



Source: Field Survey, 2012.

The study revealed that out of 67 percent of the respondents' marital status of management and operational staff questionnaires in the catchment area.

Figure 4.2



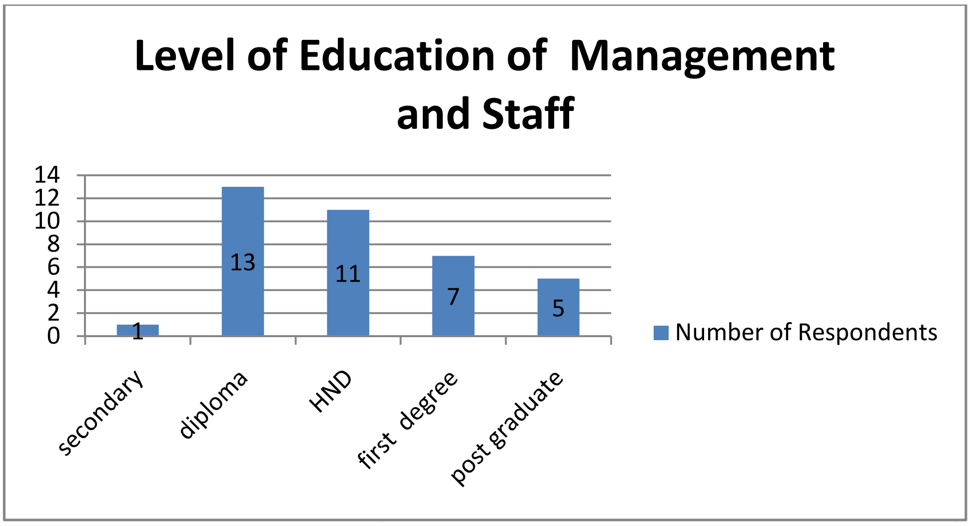
Source: Field Survey, 2012.

Approximately 10 percent of the respondents are single, 27 percent of the respondents are married, 13 percent of the respondents are divorced, and 8 percent are of the respondents are other and 9 percent have no responds.

Educational level

The study revealed that out of 67 respondents in management and operational staff positions in the catchment areas,some are first degree, HND-Diploma and secondary.

Figure 4.3



Source: Field Survey, 2012.

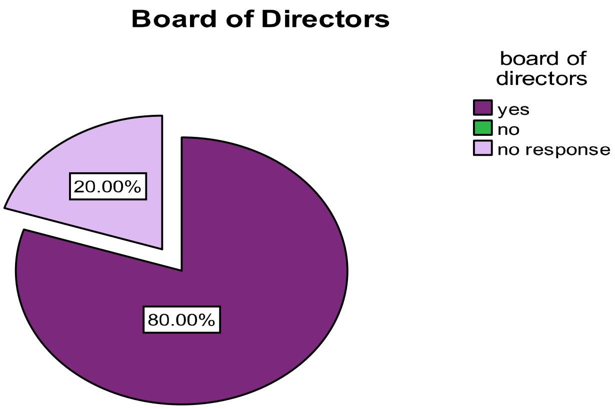
Approximately 5 percent of the respondents have postgraduate certificate, 7 percent of the respondents have first degree holders, 13 percent have Diploma certificate, and 11 percent are HND holders and 1percent with a secondary certificate.

4.2 Management Respondents

This section analyses the relationship between the rural bank and the board of directors and the effectiveness of the corporate governance in the rural banking industry. In all ten (10) managers responded to ten (10) of the questionnaires. The survey revealed the following responses:

The existence of Board of Directors

Figure 4.2.1



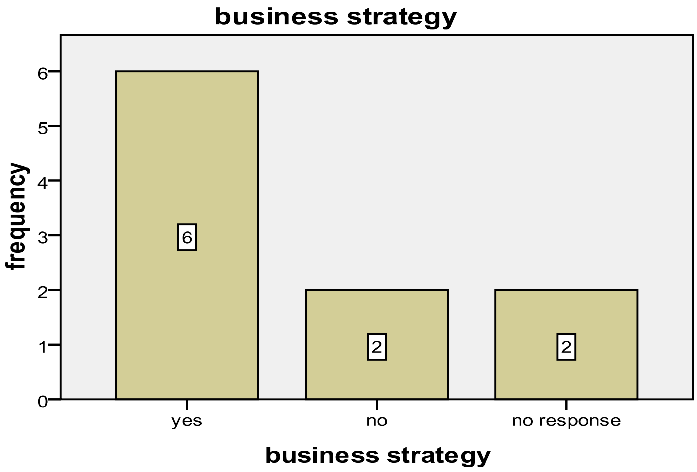
Source: Field Survey, 2012.

Firstly, responses of manager's in connection to the existence of Board of Directors revealed that 8 people representing 80% of the management responded to the awareness of the presence of Board of Directors in the organization 2 people representing 20% of the board giving us no response.

The existence of overall business strategy

This variable tries to find out whether management is aware of the existence of business strategy.

Figure 4.2.2



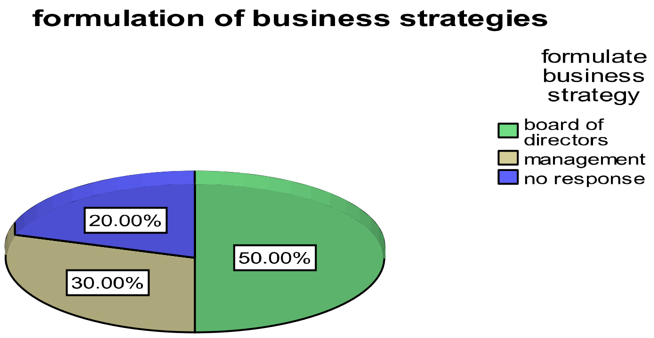
Source: Field Survey, 2012.

The study further revealed that 6 people representing 60% of the management gave a positive response to the presence of an overall business strategy with 2 people representing 20% giving a negative response and the last 2 people also representing 20% of managers who didnot respond to the questionnaires.

Formulation of business strategy

To ensure the effectiveness of corporate governance, this variable seeks to ascertain whether management or Board of Directors is responsible for formulating strategies.

Figure 4.2.3



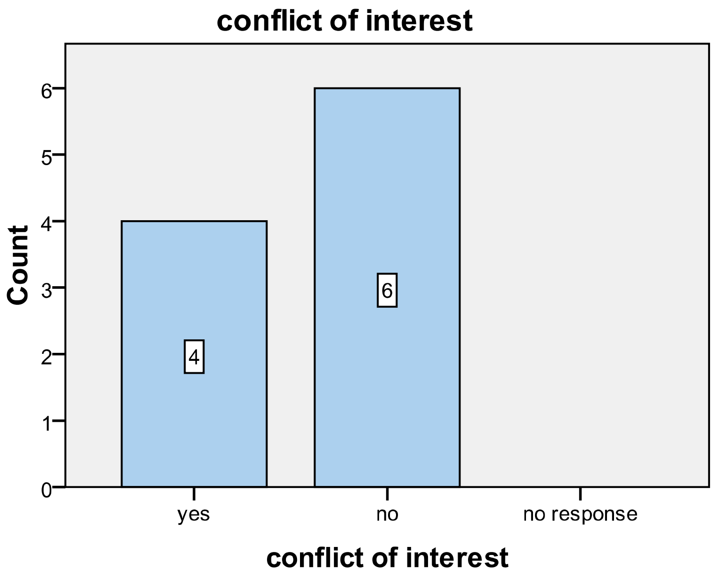
Source: Field Survey, 2012.

The survey also showed that 50% of the management said the business strategy was formulated by the board of directors with 30% saying the strategies are formulated by the management and the final 20% giving no response to that question.

The occurrence of Conflict of Interest

For overall business strategy to be implemented effectively, it is expedient to identify and manage conflict of Interest effectively. Therefore this variable seeks to find out whether managers experience and avoid conflict of interest.

Figure 4.2.4



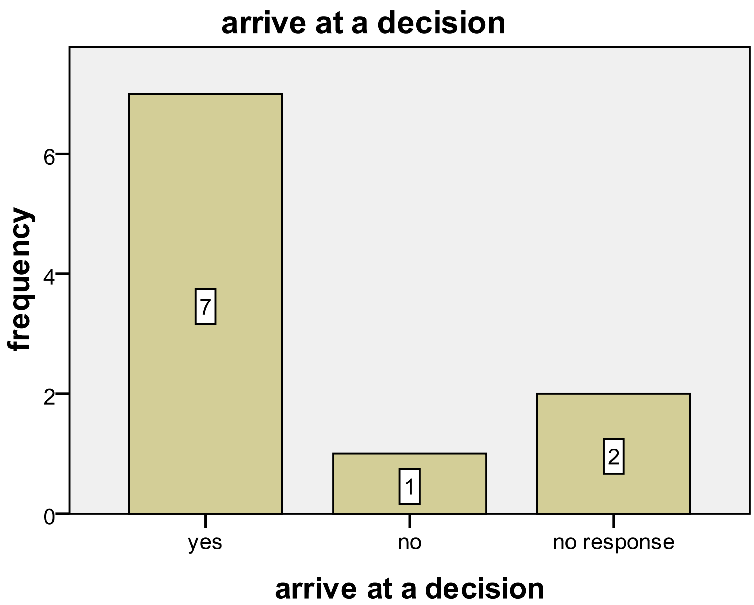
Source: Field Survey, 2012.

The study also revealed that 6 people representing 60% of the management agreed to the existence of conflict of interest in the organization with 4 people representing 40% of management saying there is nothing like that present in the organization.

The impact of conflict of interest on decision making

This variable tries to detect whether the existence of conflict of interest influences the decision making process positively or negatively to make them capable or incapable of properly fulfilling their duties to the bank.

Figure 4.2.5



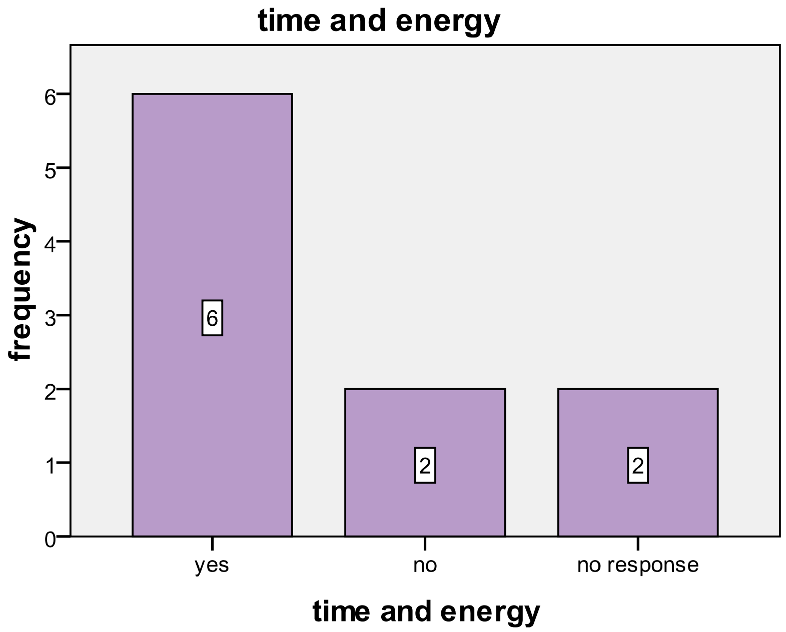
Source: Field Survey, 2012.

The chart shows that 7 people representing 70% of the management responded that decisions are still arrived at irrespective of the conflict of interest. 1 person representing 10% responded negatively and the other 2 people representing 20% gave no response at all.

Committment of time and energy by the Board of Directors

This variable tries to address how the Board of Directors commit ample time and energy in dealing with the issues that confronts the day to day operations of the bank.

Figure 4.2.6



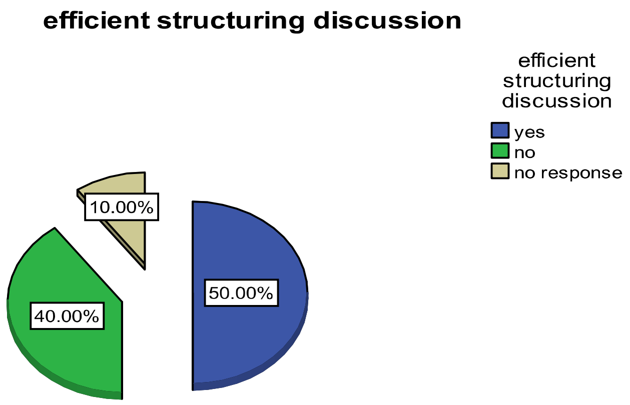
Source: Field Survey, 2012.

This shows the amount of time and energy the Board commits in fulfilling their responsibilities. According to the study 60% of the management representing 6 people acknowledged that they spend sufficient time in fulfulling their responsibilities, 20% representing 2 people responded negatively and 2 people representing 20% did not respond at all.

Structure of the Board of Directors

This variable seeks to ascertain how the Board is structured, including size (professional background) to promote efficiency and real strategic discussion.

Figure 4.2.7



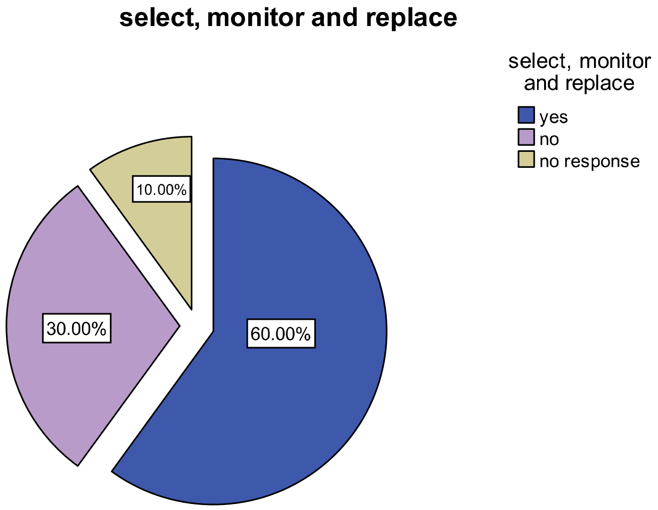
Source: Field Survey, 2012.

The study revealed that 50% of management agree to the fact that the board promotes efficiency and real strategic discussion. 40% does not agree and the rest of the 10% gave no response.

Selection and monitoring of key executives

This section enquires as to whether the board is able to efficiently select, monitor and where necessary replace key executives while ensuring that the bank has an appropriate plan for executive succession.

Figure 4.2.8



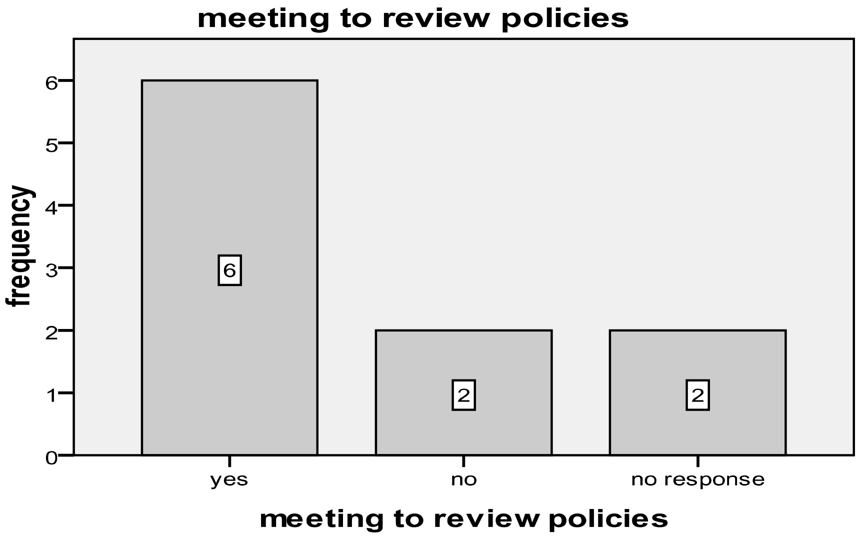
Source:FieldSurvey,2012.

The chart shows the percentage of management who are saying there is effectiveness in the selection, monitoring and replacement of key executives where necessary. 60% agreed to its effectiveness, 30% disagreed and 10% did not respond to it.

The Boards' interaction with management

This section seeks to ascertain whether the Board meets regularly with senior management and internal audit to review policies, establish communication lines and monitor progress toward corporate objectives.

Figure 4.2.9



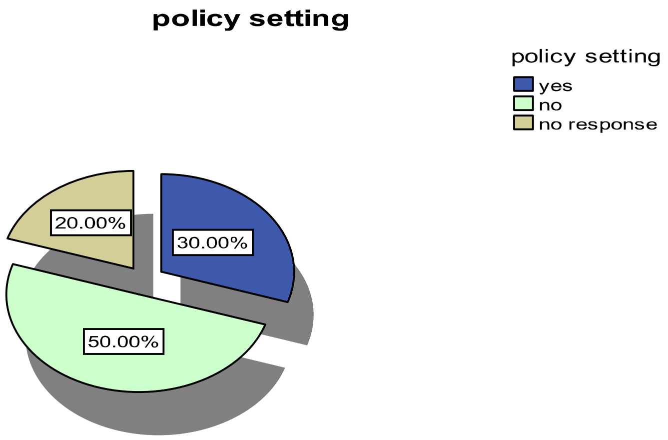
Source: Field Survey, 2012.

The study also revealed that 60% of management representing 6 people acknowledged that the board meets at regular times with senior management to review policies of the organization.

Risk Management Policies

This variable seeks to detect whether the Board sets any policies in connection to risk management.

Figure 4.2.10



Source: Field Survey, 2012.

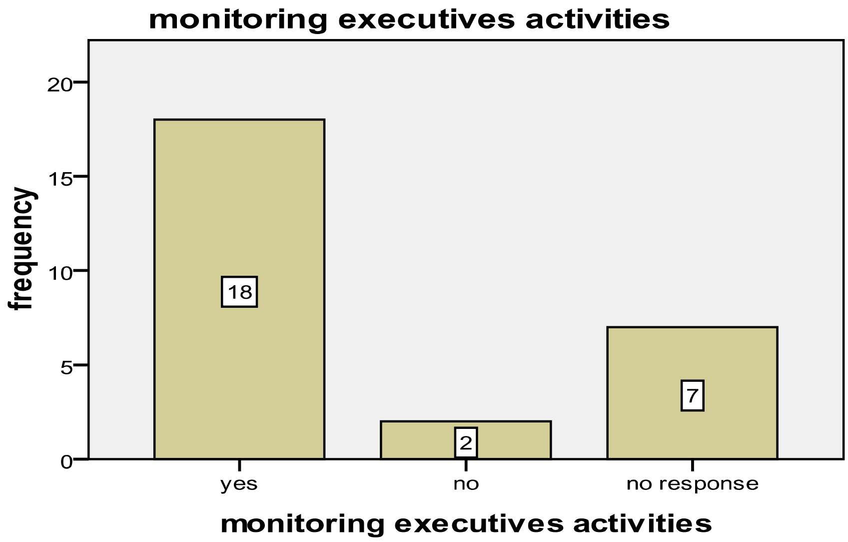
This also shows whether or not the board sets policies concerning risk management. It was revealed that 50% of management answered positively that such policies are set by the board, 30% answered negatively and 20% did not answer.

4.3 Operational Staff's Response

Monitoring executives activities

This section seeks to find out whether the operational staff are aware or know if the activities of the executives are effectively and efficiently monitored.

Figure 4.3.1



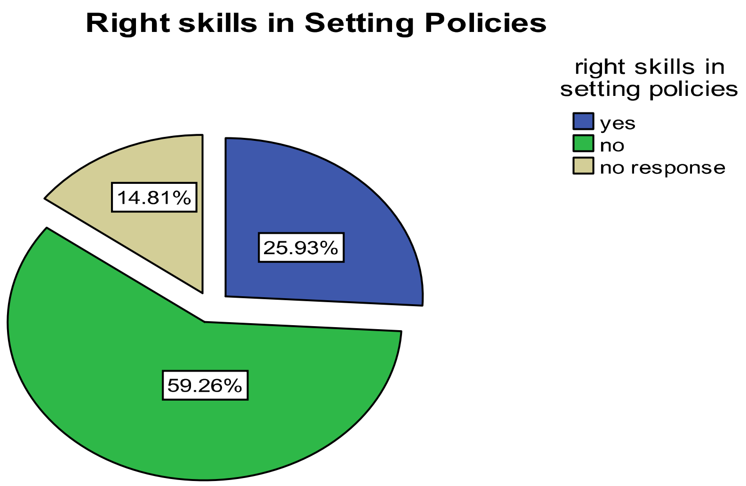
Source: Field Survey, 2012.

This shows the number of staff that made it known whether or not the activities of executives are monitored. It was established that 18 of the staff said the activities of the executives were monitored, 2 said they were not monitored and 7 of them did not respond.

Managerial skills in setting policies

This variable seeks to ascertain whether the staffs have any knowledge as to the skills used by managers in setting policies.

Figure 4.3.2



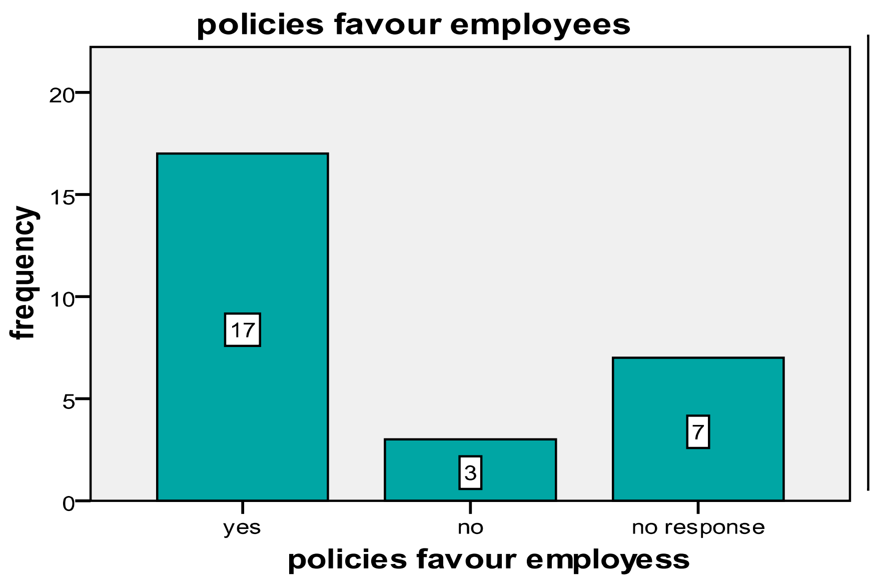
Source: Field Survey, 2012.

This reveals that 59.26% of the staff said the board do not have the right skills in setting policies, 25.93% said they do have the right skills and 14.81% did not answer.

Employees' Policies

This section seeks to find out if policies set by management favour employees or not.

Figure 4.3.3



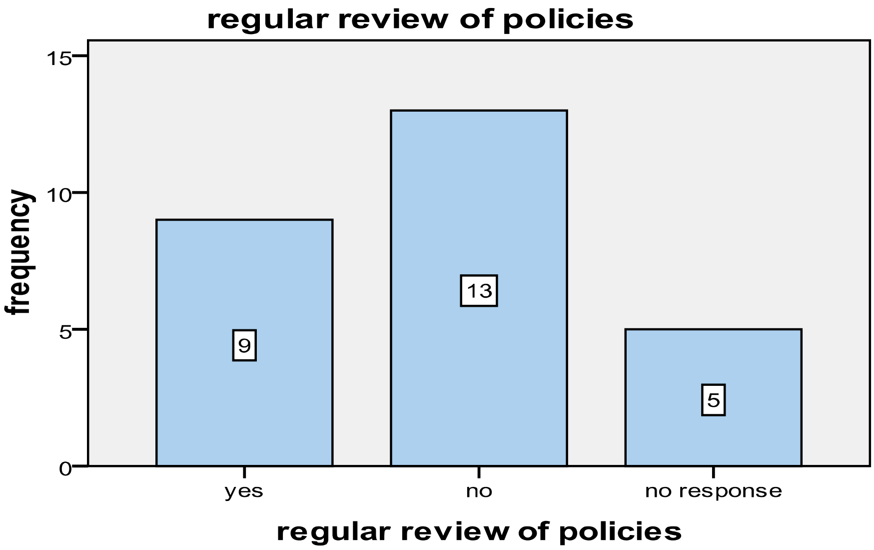
Source: Field Survey, 2012.

This reveals that policies favour 17 employees, 3 staff said they were not favourable and 7 of the staff did not respond to it.

Management's Interaction with operational staff

This variable seeks to detect if senior management meets regularly with operational staff to review policies.

Figure 4.3.4



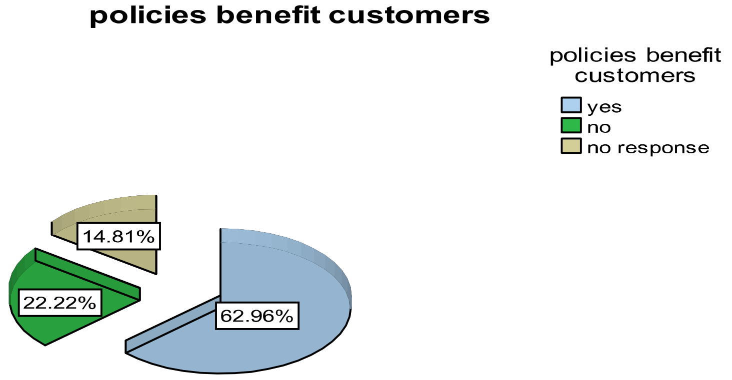
Source: Field Survey, 2012.

This explains the number of staff that agrees or do not agree to the fact that senior management meet regularly with operational staff to review policies. 9 of the staff said policies were regularly reviewed with their involvement, 13 people said they were not regularly reviewed and they were not involved and 5 of the staff gave no response.

Policies and its benefits to customers

This section also tries to find out whether managerial policies have direct benefits to the customers.

Figure 4.3.5



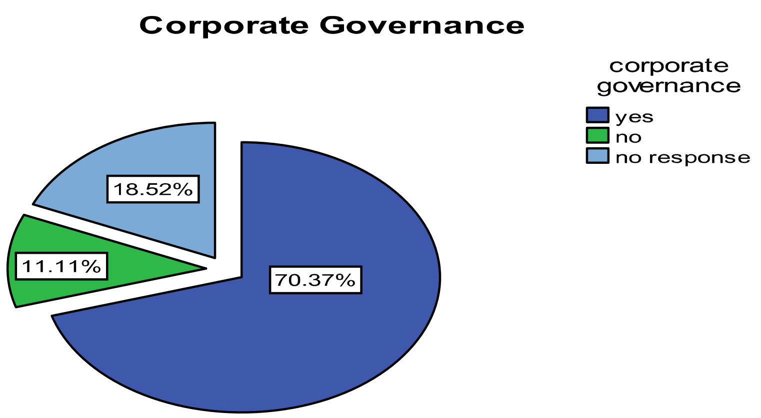
Source: Field Survey, 2012.

This study reveals that 62.96% of the staff said customers benefit from the policies, 22.22% said the policies were not beneficial to customers and 14.81% gave no response.

Corporate Governance

This variable seeks to find out if the non-performance of rural banks can be attributed to the non-existence of corporate governance.

Figure 4.3.6



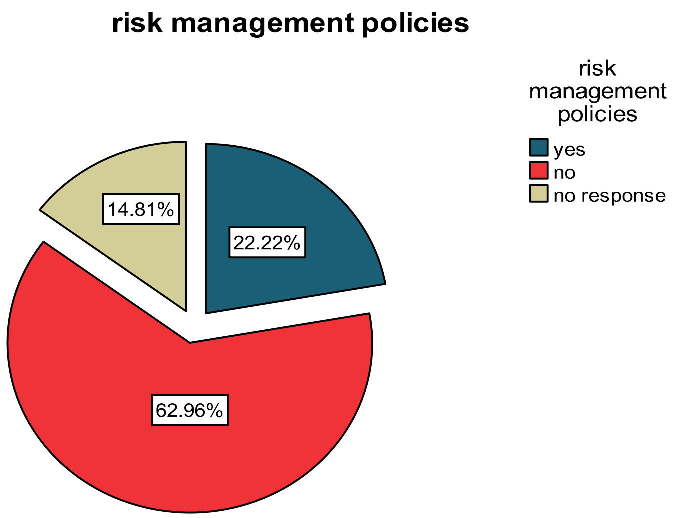
Source: Field Survey, 2012.

This revealed whether the poor performance of rural banks was due to the non-existence of corporate governance. With this 70.37% of staff said positively that poor performance of rural banks was due to non-existent corporate governance policies, 11.11% of the staff said negatively that it was not due to the non-existence of corporate governance and 18.52% did not respond to it.

Risk Management Policies

This section seeks to detect whether the management sets any policies in connection to identifying and militating against risk.

Figure 4.3.7



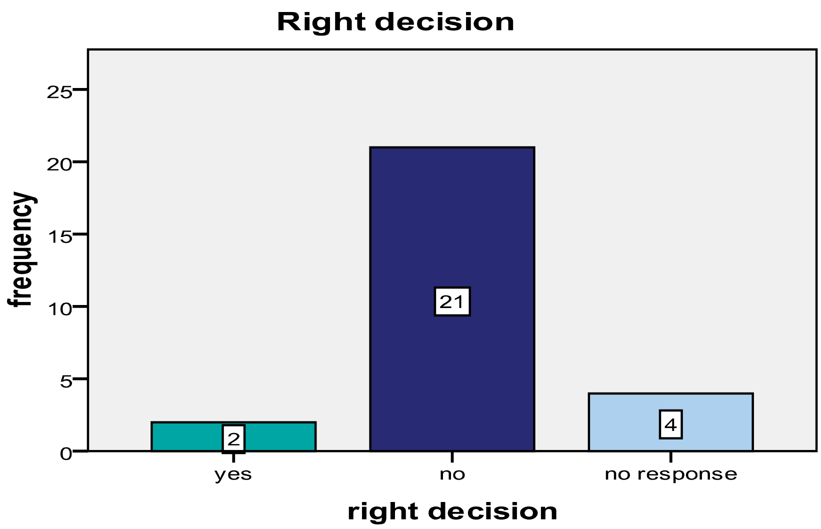
Source: Field Survey, 2012.

This represents the percentage of staff that attests to the fact that management sets policies in connection to risk. 62.96% of staff was positive about it, 22.22% were negative about it and 14.81% of staff gave no response.

Executive Decision

This section seeks to detect whether the decisions made by the executive body seem to be always right or not.

Figure 4.3.8



Source: Field Survey, 2012.

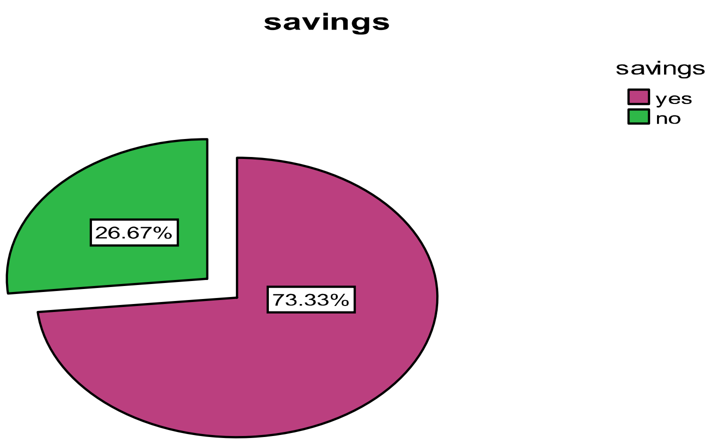
This revealed that 2 people representing the staff said decisions taken were always right, 21 people disagreed to that fact and 4 people gave no response to it.

4.4 Customers' Response

Customer Savings

Also, this study analysis whether customers save in the rural banks and the reasons for saving with the bank.

Figure 4.4.1



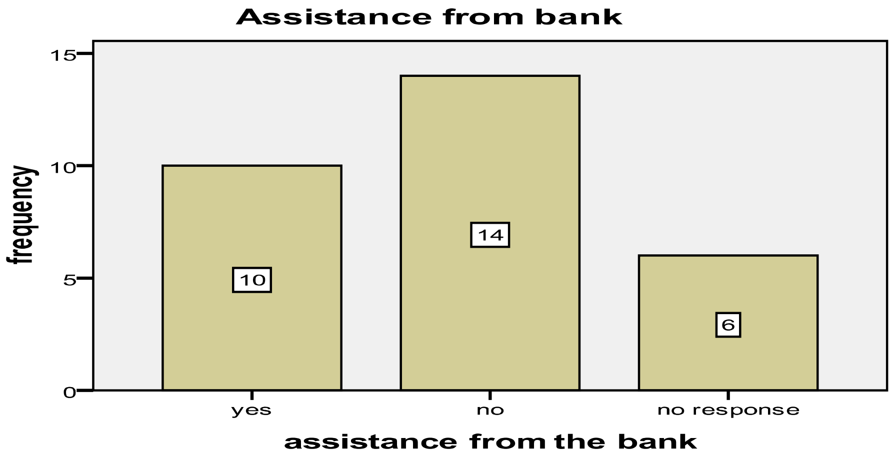
Source: Field Survey, 2012.

The chart also establishes that 73.33% of the customers also have a savings account in the bank whereas 26.67% of the customers only take their salaries from the bank. Among the notable reasons why the customers save in the rural banks are; proximity, the quality of service and easy access to loans.

Assistance from the bank

Again, this study seeks to detect the various assistance customers receive from rural banks.

Figure 4.4.2



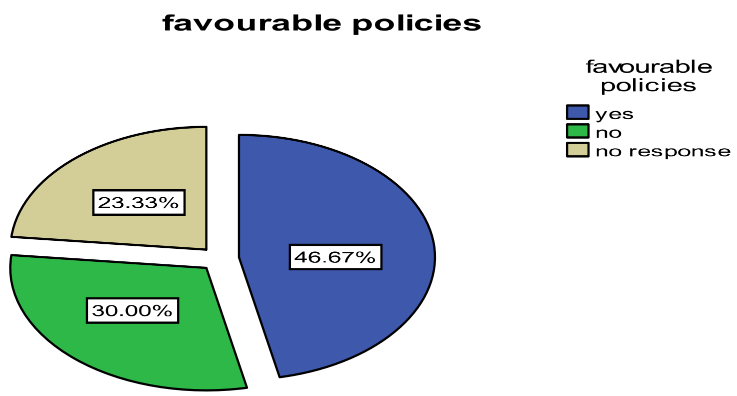
Source: Field Survey, 2012.

Out of the survey that was conducted it was established that 10 people out of 30 respondents answered positively to receiving assistance from the bank whilst 14 people said they had received no assistance. However, 6 people did not answer to it.

Favourability of Policies to Customers

Probing further, this study reveals whether the policies set by management favour customers or not.

Figure 4.4.3



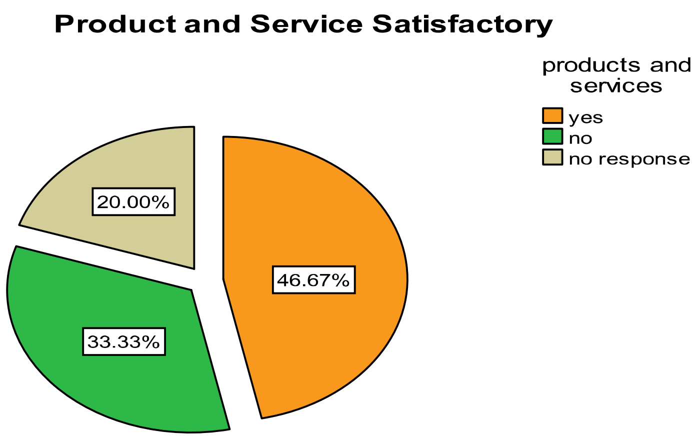
Source: Field Survey, 2012.

The study revealed that 46.67% of customers said the banks' policies were favourable to them whilst 30% said it was not favourable. The other23.33% of the customers did not respond to them.

Product Satisfaction

Moreover, this variable seeks to detect whether customers are satisfied with products or services offered by rural banks.

Figure 4.4.4



Source: Field Survey, 2012.

The chart shows that 46.67% of customers are satisfied with the banks' products and services, 33.33% are not satisfied and 20% gave no response.

Protection of Customers Interest

Furthermore, this section seeks to find out whether rural banks protect the interest of depositors or customers.

Figure 4.4.5

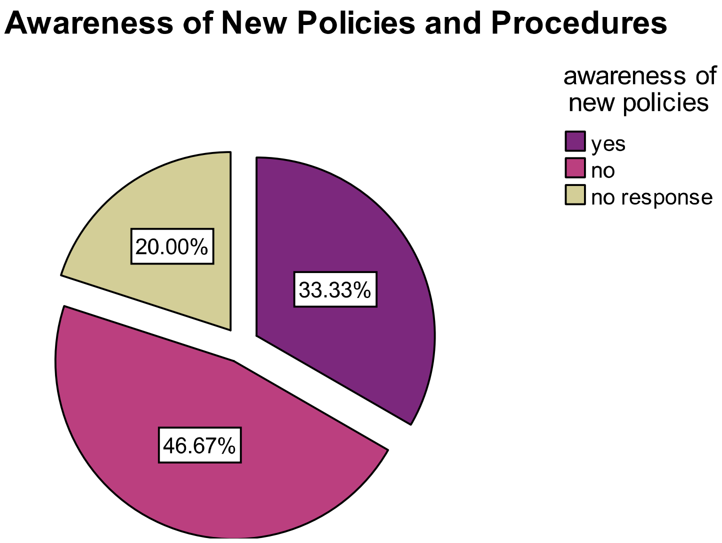
Source: Field Survey, 2012.

This study reveals that most customers are satisfied with the bank when it comes to the protection of their deposits with the bank. Out of 30 respondents, 14 answered yes to customer interest protection, 12 answered no and 4 did not to respond to it.

Awareness of New Policies and Procedures

The study further went on to reveal how rural banks ensure good customer relationship by making them aware of new policies and procedures that have been set.

Figure 4.4.6



Source: Field Survey, 2012.

The chart shows that 46.67% of customers are not made aware on new policies and procedures by the bank, 33.33% are made aware of them and 20% gave no response to the question.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION OF THE STUDY

5.1 Summary of the Findings in the Study

This study revealed that the business strategy was formulated by Board of Directors and it was found out that the business strategy was improved periodically by the bank to review policies and make changes to the weaknesses and also put measures in place to handle the weaknesses with inputs from all levels of the bank including customers. They determine these weaknesses through end of year staff appraisal and the achievement or non-achievement of set targets.

In finding out how the bank meet its obligation of accountability to their shareholders taking into accounts the interest of other recognized shareholder, the study further revealed that management members acknowledged the fact that the board meets regularly with senior management and internal audit to review policies, establish communication lines, ensure accountability and monitor progress towards corporate objectives.

Again the research also revealed that there is the existence of conflict of interest in the organization this occurs as a result of agency problems such as the disagreement between the Board and management on the appointment of certain key management position. Instead of the management to do this appointment, the Board rather improves the recruitment of certain key management positions on the management. Moreover, there are occasions where the imposed management member(s) on the management may not have the relevant skills and expertise for the Job. This is managed or avoided by clearly defining the organizational structure, segregation of duties and the documentation of policies.

Moreover, it was revealed that the Board's structure (6 members) meets Cadbury's recommended best practice (6-11 members) and also some members of the Board do not have the relevant skills, knowledge and competence to develop and maintain an appropriate level of expertise as the bank grows in size and complexity.

Furthermore, it was also revealed that the Board had policies in place to deal with the possible risks that the organization is likely to encounter. Those policies include: credit management policy, disaster recovery policy and operational guidelines.

Finally, the study revealed that some of the Board members did not have the required skills and expertise to make effective contributions in terms of decision making and formulation of policies.

5.2 Conclusion

In conclusion, our case study on Atwima Kwanwoma Rural Bank revealed that there is an existence of corporate governance and the proper mechanisms to ensure the effective implementation of the policies of the organization. However, from our observation, it was discovered that there are no proper monitoring tools to ensure the effective implementation and maintenance of the organizational policies.

5.3 Recommendation

1. The board of directors selected by the shareholders should have the requisite knowledge and some form of technical expertise of the banking industry. This would help the board to formulate appropriate policies at the right times which would be beneficial to the whole organization.

2. The board must make sure that policies that come out are well understood, very clear and well communicated to all who are involved in the activities of the rural bank including customers.
3. The board must ensure that there are proper monitoring and control mechanisms for effective and efficient implementation, maintaining and evaluation of organizational policies and strategies.

APPENDIX I

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APPENDIX 2

MANAGEMENT

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	female	4	40.0	40.0	40.0
	male	6	60.0	60.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15-29	2	20.0	20.0	20.0
	30-39	2	20.0	20.0	40.0
	40-49	3	30.0	30.0	70.0
	50 and above	2	20.0	20.0	90.0
	no response	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

Marital Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Divorced	2	20.0	20.0	20.0
	Married	4	40.0	40.0	60.0
	no response	2	20.0	20.0	80.0
	Other	1	10.0	10.0	90.0
	Single	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	HND	3	30.0	30.0	30.0
	first degree	2	20.0	20.0	50.0
	post graduate	2	20.0	20.0	70.0
	Diploma	3	30.0	30.0	100.0

	Total	10	100.0	100.0	

Source: Field Survey, 2012

The Existence of Board of Directors

		Frequency	Percent	Valid percent	Cumulative Percent
Valid	Yes	8	80.0	80.0	80.0
	no response	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

The Existence of overall Business Strategy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	6	60.0	60.0	60.0
	No	2	20.0	20.0	80.0
	no response	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Formulate Business Strategy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	board of directors	5	50.0	50.0	50.0
	management	3	30.0	30.0	80.0
	no response	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

Conflict of Interest

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	4	40.0	40.0	40.0
	no	6	60.0	60.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

Arrive at a Decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	7	70.0	70.0	70.0

	no	1	10.0	10.0	80.0
	no response	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

Time and Energy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	6	60.0	60.0	60.0
	no	2	20.0	20.0	80.0
	no response	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

Efficient Structuring Discussion

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	5	50.0	50.0	50.0
	no	4	40.0	40.0	90.0
	no response	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

Select, Monitor and Replace

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	6	60.0	60.0	60.0
	No	3	30.0	30.0	90.0
	no response	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

Meeting to Review Policies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	6	60.0	60.0	60.0
	no	2	20.0	20.0	80.0
	no response	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Policy Setting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	3	30.0	30.0	30.0

	no	5	50.0	50.0	80.0
	no response	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Source: Field Survey, 2012

STAFF

monitoring executives activities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	18	66.7	66.7	66.7
	no	2	7.4	7.4	74.1
	no response	7	25.9	25.9	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

right skills in setting policies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	7	25.9	25.9	25.9
	no	16	59.3	59.3	85.2
	no response	4	14.8	14.8	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

policies favour employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	17	63.0	63.0	63.0
	no	3	11.1	11.1	74.1
	no response	7	25.9	25.9	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

regular review of policies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	9	33.3	33.3	33.3
	no	13	48.1	48.1	81.5
	no response	5	18.5	18.5	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

policies benefit customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	17	63.0	63.0	63.0
	no	6	22.2	22.2	85.2
	no response	4	14.8	14.8	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

corporate governance

		Frequency	Percent	Valid Percent	Cumulative P
Valid	yes	19	70.4	70.4	70.4
	no	3	11.1	11.1	81.5
	no response	5	18.5	18.5	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

Risk management policies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	6	22.2	22.2	22.2
	no	17	63.0	63.0	85.2
	no response	4	14.8	14.8	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

Right decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	2	7.4	7.4	7.4

	no	21	77.8	77.8	85.2
	no response	4	14.8	14.8	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15-29	5	18.5	18.5	18.5
	30-39	12	44.4	44.4	63.0
	40-49	5	18.5	18.5	81.5
	50 and above	2	7.4	7.4	88.9
	no response	3	11.1	11.1	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	female	12	44.4	44.4	44.4
	male	15	55.6	55.6	100.0
	Total	27	100.0	100.0	

marital status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	divorced	4	14.8	14.8	14.8
	married	13	48.1	48.1	63.0
	no response	1	3.7	3.7	66.7
	other	5	18.5	18.5	85.2
	single	4	14.8	14.8	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

level of education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	diploma	10	37.0	37.0	37.0
	first degree	5	18.5	18.5	55.6
	post graduate	3	11.1	11.1	66.7
	HND	8	29.6	29.6	96.3
	secondary	1	3.7	3.7	100.0
	Total	27	100.0	100.0	

Source: Field Survey, 2012

CUSTOMERS

Savings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	22	73.3	73.3	73.3
	no	8	26.7	26.7	100.0
	Total	30	100.0	100.0	

Source: Field Survey, 2012

Assistance from the bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	10	33.3	33.3	33.3
	no	14	46.7	46.7	80.0
	no response	6	20.0	20.0	100.0
	Total	30	100.0	100.0	

Source: Field Survey, 2012

favourable policies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	14	46.7	46.7	46.7
	no	9	30.0	30.0	76.7
	no response	7	23.3	23.3	100.0
	Total	30	100.0	100.0	

Source: Field Survey, 2012

products and services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	14	46.7	46.7	46.7
	no	10	33.3	33.3	80.0
	no response	6	20.0	20.0	100.0
	Total	30	100.0	100.0	

Source: Field Survey, 2012

customer interest protection

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	14	46.7	46.7	46.7
	no	12	40.0	40.0	86.7
	no response	4	13.3	13.3	100.0

customer interest protection

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	14	46.7	46.7	46.7
	no	12	40.0	40.0	86.7
	no response	4	13.3	13.3	100.0
	Total	30	100.0	100.0	

Source: Field Survey, 2012

Awareness of new policies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	10	33.3	33.3	33.3
	no	14	46.7	46.7	80.0
	no response	6	20.0	20.0	100.0
	Total	30	100.0	100.0	

Source: Field Survey, 2012

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	female	16	53.3	53.3	53.3
	male	14	46.7	46.7	100.0

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	female	16	53.3	53.3	53.3
	male	14	46.7	46.7	100.0
	Total	30	100.0	100.0	

Source: Field Survey, 2012

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15-29	7	23.3	23.3	23.3
	30-39	8	26.7	26.7	50.0
	40-49	6	20.0	20.0	70.0
	50 and above	4	13.3	13.3	83.3
	no response	5	16.7	16.7	100.0
	Total	30	100.0	100.0	

Source: Field Survey, 2012

APPENDIX 3

MANAGEMENT QUESTIONNAIRES

1. Gender: Male ( ) Female( )
2. Position...
3. Age: 15-29( ) 30 – 39( ) 40 – 49( ) 50 and above( )
4. Marital Status : Single( ) Married ( ) Divorced ( ) Other( )
5. Highest Level of Education :(a) Elementary ( ) (b) Secondary( ) (c) Diploma ( ) (d) Teacher Training( ) (e) Polytechnic( ) (f) First Degree( ) (g)Postgraduate( ) (h) PhD( )
6. How long have you worked with this Organisation? ....
7. Does the Organisation have Board of Directors? Yes( ) No( )
8. How many people constitute the Board of Directors? ....
9. Does the Organisation have overall business strategy? Yes( ) No( )
10. a. Who formulates the Business Strategy? Board of Directors( ) Management( )

    b. Could you mention any of the strategies?

……………………………………………………………………………………………

11. How does the bank improve the overall business strategy? ....

12. Does management experience conflict of interest? Yes( ) No( )
13. How does management avoid conflicts of interest, or the appearance of conflicts? ……………………………………………………………………………………

14. Are the board of directors able to arrive at a decision when they have conflicts of interest that make them incapable of properly fulfilling their duties to the bank? Yes( ) No( )
15. Do the Board of directors commit sufficient time and energy in fulfilling their responsibilities? Yes( ) No( )
16. Do they structure themselves (as a Board) in a way, including size (professional background) that promotes efficiency and real strategic discussion? Yes( ) No( )
17. How do they develop and maintain an appropriate level of expertise as the bank grows in size and complexity? …………………………………………………………………………………….
18. a. How do they periodically assess the effectiveness of their own governance practises including nomination and election of board members?

    ……………………………………………………………………………………

18.b. How do they determine where weaknesses exist and make changes as necessary?

……………………………………………………………………………………

19. a. Do they select, monitor and where necessary replace key executives, while ensuring that the bank has an appropriate plan for executive succession?

Yes ( ) No ( )

19. b. How do they determine that any intended successor(s) are qualified, fit and proper to manage the affairs of the bank? …………………………………………………………………………………….

20. Do they meet regularly with senior management and internal audit to review policies, establish communication lines and monitor progress toward corporate objectives? Yes( ) No( )
21. How do they promote bank safety and soundness?

    ....

22. How do they ensure that the bank maintains an effective relationship with supervisors?

    ……………………………………………………………………………………

23.a. Does the board set any policies in connection to risk management?

    i. Yes ( ) No ( )

23.b. What are some of these policies?

………………………………………………………………………………………………

……………………………………………………………………………………………

CUSTOMER QUESTIONNAIRE

1. Do you save money at the rural banks? Yes ( ) No ( )

Why? ……………………………………………………………………………………..

2. Have you been assisted by any of the rural banks before? Yes ( ) No ( )

If yes, what type of benefit or assistance did you get?

……………………………………………………………………………………….........

3. Are policies of the rural bank favourable to you as a customer? Yes ( ) No ( )

4. Are the products and services offered by the rural bank satisfactory? Yes ( ) No ( )

5. Do you think the bank protects your interests as a Depositor? Yes ( ) No ( )

If yes, what makes you think that way? ....

....

6. Does the bank meet with customers to make them aware of new policies and procedures in order to ensure good customer relationship? Yes ( ) No ( )

If yes, how often and how effective are such meetings?

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…………………………………………………………………………………………

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OPERATIONAL STAFF QUESTIONNAIRES

1. Are the activities of the executives monitored? Yes( ) No( )

   If yes, how often...

2. Are decisions taken by executives always right? Yes( ) No( )

3. Do they have the right skills in setting policies? Yes( ) No( )

4. Do such policies favour employees or not? Yes( ) No( )

5. Does the senior management meet regularly with operational staff to review policies?

   Yes( ) No( )

6. If yes, how often

   ....

7. Do customers benefit from such policies set by the board? Yes( ) No( )

8. Do you think the poor performance of rural banks is due to the non-existence of corporate governance? Yes( ) No( )

9. a. Does the management set any policies in connection with managing risk?

Yes ( ) No ( ).

9. b. What are some of these policies?

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