

## **An Anatomy of the Business and Financial Performance of State-Owned Financial Institutions in Ghana (2012-2015)**

Article by Henry Frimpong

*MBA, ACCA, Chartered Accountant and Lecturer in Financial Accounting, Marshall*

*University College, Accra- Ghana*

*E-mail: kfrimps@yahoo.com*

### **Abstract**

*The study evaluated the business and the financial performance of state-owned financial institutions in Ghana for the four-year period ending December 31, 2015. In conducting the study both officials and customer of the bank were interviewed using the questionnaire technique as the research instrument. Simple random sampling techniques enabled the researcher to select the customer respondents while purposive sampling technique helped in directly approaching officials of the bank whose job description logically enhanced their readiness to co-operate fully with the study.*

*The study uncovered the fact that state owned banks in Ghana have assembled fairly qualified personnel who assist in achieving organizational goals. It also came to light that the banks' operating costs are increasing as a result of hike in staff cost emanating from industry competition over experienced professionals as well as unpaid loans on government businesses. Customer complaints centered on unreliable service delivery systems especially ATMs. It was recommended that government and political authorities should desist from interfering in the operations of state-owned banks so as to enable them retrieve loans granted to minimize the large the bad debts. The banks were further advised to maintain planned maintenance schedule for the ATM equipment, thereby enhancing service delivery. Given the relatively more affordable service charges offered by these banks, their visibility in terms of numerous branches, it stands to reason that if government grants the board members the free hand to operate, they will continue to serve Ghanaians better than their foreign counterparts.*

**Keywords:** *state owned banks, financial institution, business performance, financial ratios.*

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### **Introduction**

The study attempts to evaluate the business and financial performance in Ghana with the search light on the operations of state-owned banks. Out of the 30 fully fledged commercial banks, only 3 namely GCB bank, National Investment bank and Agricultural Development bank are state owned banks. As government institutions, their service charges and mode of operations are slightly different from those of the private indigenous foreign banks. For instant, whereas GCB bank is expected to establish branches in all districts of the country thereby maintaining 160 branches, a peer in the industry i.e. Standard Chartered bank has only 30 branches. The latter are strategically located in business biased areas, this to some extent indicate that state owned banks are not only establish to make profit but also to render service

as well as facilitate government financial activities. The appointment of directors to the boards of state-owned banks in Ghana is also a prerogative of the political authority and as such not all appointees are knowledgeable enough to help prosecute the developmental agenda. This is in sharp contrast to what obtains in private indigenous and foreign banks which are also competing in the same industry.

Owing to the relatively more comfortable service charges and loan granting conditions of state-owned banks, small and medium enterprises often prefer doing business with state owned banks to private banks. Increasingly, SMEs are becoming very powerful sector in the socio-economic development of Ghana. Financial economists, describes SMEs as the engine of growth of the economy and therefore for the country to appreciably grow its Gross Domestic

Product (GDP), it is very vital to help the sector with more funds and other logistics. However, many banks operating in the country complain of high-risk factors associated with lending to the SMEs sector. According to Essien (2005), most of the huge bad debts or non-performing assets sticking on the books of the financial institutions emanated from their association with SMEs and therefore some banks have decided to discriminate against SMEs in their investment in loan portfolio yet the million dollar question is how can the banks sideline the SMEs sector in their financial intermediation role? How then will the economy of Ghana improve? Perhaps, what the banks need to do is to improve upon their credit risk management skills. On the global scale, the financial services environment faces various forms of risk, in their endeavours at achieving their targets and objectives. The inability to manage these risks can cause irreparable damage. Credit risk, according to Berger (2005) is a potential loss sustained by a lender as a result of refusal or inability or borrower or counterparty to pay what is owed in full and on time in respect of anticipated payments. Such loan defaults could jeopardize the very existence of these banks if elaborate risk management practices were not put in place. According to Kannan and Thangavel (2005) the last twenty years have been marked by substantial financial deregulation. Accompanying this deregulation has been a plethora of methodologies for managing the risks/rewards created by this deregulation.

Over the past decade or so, Jorion (2007) says the markets have seen one debacle after another, each of which has brought its own set of lessons and from many of which the markets still need to learn. Enterprise risk management is about optimizing the process with which risks are taken and managed. It has become a burning issue because organizations have started suffering huge losses often from the risks, they never should have taken in the first place. Ghanaian banks as indicated above have had their fair share of losses emanating from operational risk factors especially credit risk. Not much study has been conducted within the sub-region on this subject area and therefore literature for taking remedial measures is very scanty.

Accordingly, the study will attempt to critically evaluate the business and financial

performance of state-owned banks in Ghana so as to make appropriate recommendations.

## **Statement of the problem**

Government of Ghana has given state owned banks special mandate to serve the people and that profit should not only be their mandate. Consequently, the banks have also been operating in towns and sub urban areas where profit levels are very minimal. This is in sharp contrast in what prevails in purely private indigenous and foreign banks. The latter only operate in places where business is buoyant and cost of operations can be accommodated by revenue from these areas. Moreover, state owned banks often suffer political interference and in some cases government officials influence who should be given what quantum of loans at their disposal. This is again contrary to situations at the private banks. As a result of interference in loan management, state owned banks often sustain huge non-performing assets, a chunk of which emanate from their association with small businesses. From the foregoing, it appears that state owned banks do not have the free hand to operate and this certainly influences their operational capacity negatively. The study therefore sought to investigate the business and financial performance of state-owned bank in Ghana for the period 2012 to 2015 so as to make appropriate recommendations.

## **Objectives of the research**

1. To investigate the business arrangements put in place by state banks to compete effectively in the Ghanaian industry.
2. To evaluate the financial performance of state-owned banks in the industry.
3. To explore further strategies for enhancing business and financial performance of state-owned banks in Ghana.

## **Review of literature**

### **Review of financial theories**

Essentially, banks are in the business of financing and this they do by picking excess funds from one side of the economy and making them available to the needy sectors so as to trigger economic growth. It is therefore essential to compare financing theories with actual corporate financing behaviors of these banks so as to strategize the course of the study in a better direction. The capital structure irrelevance theory

proposed by Modigliani and Miller (1963) holds that a firm's value is not affected by its capital structure. The theory, however, was proposed under some strict assumptions, such as frictionless markets, no tax, no bankruptcy, costs, and no growth. On the other hand, the TTO theory of capital structure recognizes taxes and bankruptcies. The essence of the TTO is that a firm's debt-equity decision is based on the trade-off between the debt's tax shield and the costs associated with bankruptcy and financial distress (Robichek & Myers, 1966; Marsh, 1982). According to the TTO, the firm sets an optimal target debt-to-equity ratio at which the marginal costs and marginal benefits of debt exactly offset each other. The firm will gradually move toward the target ratio. Typically, the target debt-equity ratio varies across firms. Companies with plenty of taxable income to shield tend to have high debt-equity ratios. Unprofitable companies may want to rely more on equity financing. Empirical studies attempting to find the determinants of capital structure within the trade-off framework include those by Fama and French (1979), March (1982), and Castanias (1983). Bradley et al. (1984) provided an overall review of the TTO theory and empirical studies. The problem with the TTO theory, as Brealey and Myers (1984) pointed out is that the theory cannot explain the real-life capital structure phenomenon that the most profitable companies generally thrive with little debt.

Donaldson (1961 & 1969) discussed the principles of the PPO financing theory. The essence of the theory is that a firm follows a pecking-order of preference when making decisions on sources of capital. According to the PPO, internally generated funds are the most preferred, followed by debt if external financing is required. New equity is the last source for financing consideration. There is no well-defined target debt-equity ratio in the PPO.

A firm's preference for internal financing, as Donaldson pointed out (1961), is due to its management's unwillingness to be subjected to market scrutiny when raising funds on the capital market. Donaldson (1961) observed that managers strongly favored internal generation as a source of new funds even to the exclusion of external funds, except for occasional unfavorable 'bulges' in the need for funds. He pointed out that if external financing was needed, managers rarely thought of issuing common stocks. Baskin (1989)

tested the PPO by analyzing the debt ratios of sample firms and their relationship to past profitability. His results supported the hypothesis that firms with higher past profitability use less debt financing. Myers (1984) modified the PPO theory and proposed what he called "the Modified Pecking Order" financing theory. In the MPO, the preference order of financing sources is the same as in the PPO, except that safe debt is preferred to risky debt.

The MPO theory differs from the PPO theory on two major issues. First, the MPO suggests that information asymmetry, rather than the management's unwillingness to accept market scrutiny, determines managers' preference for internal financing. Information asymmetry refers to the market's lack of understanding of the true value of a firm's investment opportunities when the firm issues new securities to finance investment projects (Myers and Majluf, 1984). The consequence is the undervaluation of the security and therefore the undervaluation of the firm. The likelihood of undervaluation is related to the riskiness of the security to be issued. The riskier the security, the more likely it is that the market will undervalue the firm. While using internally generated funds can enable a firm to avoid undervaluation, issuing less risky securities can reduce the undervaluation. As common stock is the riskiest security for outside investors, new stock issuance is most likely to cause undervaluation. Therefore, in the MPO, internally generated funds are the most preferred, followed by safe debt, risky debt, and finally new equity. Second, the preference of debt to equity in the MPO theory is reversible. The MPO emphasizes not only information asymmetry but also a firm's preference for "financial slack or debt capacity. The firm may reverse the order when its preference for reserving borrowing capacity prevails. Therefore, the firm may move back on the preference order and issue new equity, instead of debt, to maintain or increase financial slack. In an empirical study, Gu (1996) compared the capital structure of the hotel industry with those of three slow-growing industries: the petroleum and coal products industry, the apparel and textile industry, and the fabricated material products industry. Different leverage ratios were used for the comparison. The results supported the MPO theory.

## **Key development in banking industry of Ghana**

Ghana's banking industry, according to the strategic African Securities (SAS) Limited (2007) is fast evolving and becoming increasingly competitive. This is as a result of relicensing all existing banks and according them the status of universal bank under the new banking act which was promulgated in 2004. This, Asiedu-Mante (2006) notes, is in line with the desire of central bank of Ghana to make Ghana the financial center of West Africa. Government is therefore pursuing policies that will facilitate the attainment of these goals. The central bank of Ghana, according to Bawumia (2007) has lobbied the Ghanaian parliament to pass into law the credit Reporting Bill which, in the opinion of Mwanaketwe (2007) will ensure that credit ratings are assigned to institutions and individuals. It is therefore expected that this will enrich the lending process for banks and improve the quality of bank loans. The Bank of Ghana, according to Acquah (2007) is also re-examining the know-your-customer (KYC) process in order to introduce new guidelines to ensure its conformity with the prevailing environment while making sure they are consistent with anti-money laundering procedures. Furthermore, Otabil (2008) explains that the institute of Chartered Accountants Ghana (ICAG), in collaboration with regulatory bodies such as the BOG and the Securities and Exchange Commission, introduced new financial reporting standards, International Financial Reporting Standards (IFRS), with effect from January 1 2007 for banks, listed companies and other large companies in Ghana.

### **Expanding customer base**

Asante et al (2011) ascribe the growing customer base of the banks to the increasing presence of foreign nationals in the Ghanaian business environment leading to increased foreign direct investment with the attended expansion in business activities. Accordingly, greater number of Ghanaians according to Ackah (2006) are requiring and gaining access to banking services.

### **Innovative products & services**

The stiff competition in Ghana's banking sector, in the view of Addeah (2006) has made it imperative for banks to focus on product

development and quality services delivery as the main channels for effective competitions. This point is buttressed by Kotler (2007) who argues that only innovative and creative businesses could stay on top of competition.

### **Banks finance the petroleum and cocoa sectors.**

According to Acquah (2007) MBG is one of the leading banks that continue to support the oil industry of Ghana. The management the bank, Otabil (2008) notes, has consistently been financing oil importation, refining and distribution, as one of its core operations. The bank also participates in cocoa syndication and financing of cocoa purchases as its contribution towards stabilizing both the cocoa and oil industries of Ghana.

### **Banks helping the educational and health sectors**

In an interaction with management of the bank, it came out clearly that the bank is in the business of arranging overdraft facilities for a good number of the second cycle and tertiary institutions to finance purchases of food items, paying contractors etc while waiting for the government subvention.

## **Research methodology**

### **Research design**

Taking cognizance of the fact that the objectives of the study can be met through questions and answers, the researcher adopted the sample survey technique as the research design. Sample survey is a method of collecting primary data based on communication (questions and answers) with a representative sample of respondents (Zikmund and Babin 2010). In a sample survey the answer of respondents is presumed to be a sample of the way larger population would respond.

### **Population of the study**

Information for meeting the objectives of the study emanated from officials as well as customers of the three state owned banks in Ghana namely GCB bank, National Investment bank and Agricultural Development bank. Key officials interviewed were those in marketing department, corporate banking as well as HR department while in the case of customers the selection was effected from a broad spectrum of

business operators and some individual customers of the bank.

### Sampling procedure

Since only a few bank officials could assist with the kind of information needed, purposive sampling techniques was adopted to select the required sample size of all the three banks as indicated in table 1.

In the case of customers however, some systematic random sampling technique was needed to pick up the respondents from the three banks.

**Table 1.** Distribution of respondents

| Area         | Customers | Bank Officials |
|--------------|-----------|----------------|
| GCB bank     | 23        | 15             |
| NIB          | 16        | 10             |
| ADB          | 16        | 10             |
| <b>Total</b> | <b>55</b> | <b>35</b>      |

Source: Field Data (2017)

### Research instruments

Judging from the fact that both official and customers of the three banks are all well educated people and moreover they needed some kind of flexibility to fully cooperate with the study, the researcher found the questionnaire techniques most appropriate and therefore carefully styled the questionnaire so as to solicit the needed information.

### Administration of questionnaire

Having observed the initial protocol, the researcher was ushered into the offices of the public relations managers of the 3 banks where arrangements were made for a direct contact with the key personnel of the various departments. A total of 35 questionnaires were distributed the bank officials while 55 questionnaires went to the customers of the bank.

### Data collection

A time frame not exceeding two weeks was agreed upon within which each official was expected to complete answering the questionnaire. The respondents were periodically reminded on the phone their responsibilities to the study until the matured date for data collection. The researcher quickly arranged with the respondents on the appropriate time for collection. The researcher personally went around to pick up the answered “scripts”. Care

was exercised to ensure that all areas of the questionnaires had been answered except areas which were not applicable to the respondent. In all, 78 out of the 90 questionnaires returned safely representing 86.7% response rate.

### Data analysis

SPSS was employed in analyzing the data and the relevant frequency tables, pie charts, calculations and graphs have been presented in subsequent paragraph.

### Data presentation and analysis

The analysis of data captured from the field together with their interpretation as well as the discussion of findings.

### Analysis of business arrangement put in place by state owned banks to compete effectively in local banking industry

#### View on how state-owned banks responded to the directives of the new universal banking law on service delivery system

Following the promulgation of the new universal banking law in 2004, all banks in Ghana were asked to extend their scope of operations in order to accommodate more banking services. The study therefore sought to investigate how these directives were respected.

**Table 2.** Frequency table on additional service delivery systems at banks

| Response Type            | Frequency (out of 30) | Percentage (%) |
|--------------------------|-----------------------|----------------|
| More branches            | 30                    | 100.00         |
| More service equipment's | 28                    | 93.75          |
| Online banking           | 25                    | 83.33          |
| SMS banking              | 24                    | 79.20          |
| Door-to-door services    | 27                    | 89.60          |

Source: Field data 2017

Table 2 – depicts the fact that all the 30 bank officials indicated that in order to handle the influx of customers as a result of granting the banks a universal banking license to operate as a one stop bank where all banking services could

be transacted. Twenty-eight (i.e. 93.75%) bank respondents also mentioned new equipment such as Automated teller Machines (ATMs) where procured by the banks to enhance service delivery. Twenty-seven (i.e. 89.6%) bank respondents also explained that their banks had to embark upon door-to-door cash mobilization services so as to reduce the influx of corporate customers who visit the bank to deposit huge sums of money. Twenty-five (i.e. 83.3%) respondents mentioned online banking as an additional service delivery system which sought to minimize the physical presence of customer at the banks Specially to check their bank balance or place order for fresh cheque books. Twenty-four (i.e.79.2%) respondents disclosed that the banks had to introduce SMS banking so that customers could use their mobile phones to monitor the bank balances.

### Views on customer drive activities

The study further wanted to investigate the customer drive activities put forward by the banks to contain competition in the industry. Results have been presented in table 3

**Table 3.** Frequency table on customer drive activities of the banks

| Response Type                         | Frequency (out of 30) | Percentage (%) |
|---------------------------------------|-----------------------|----------------|
| Door-to door cash mobilization        | 28                    | 93.4           |
| Presentation at work places           | 27                    | 90.0           |
| Market places presentation            | 26                    | 86.7           |
| More advertisement                    | 20                    | 66.7           |
| Improvement in service quality        | 25                    | 83.3           |
| Reduction in customer turnaround time | 18                    | 60             |

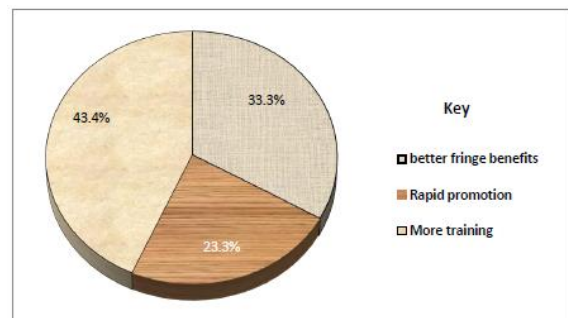
**Source:** Field data 2017

Table 4 – shows that twenty-eight out of the thirty (i.e. 93.4%) bank respondents pointed out that their banks have been conducting door-to-door cash mobilization exercises to save the

corporate customer the time and risk of carrying huge sums of money to the bank. Twenty-seven (i.e. 90%) respondents also mentioned series of presentations that their banks have been under taking at various work places with the view to shoring up its customer base. Twenty-six (i.e. 86.7%) respondents pointed out that their banks have been embarking upon market place presentation to drum home their services and product to the target market. Twenty-five (i.e. 83.3%) respondents indicated that staff continue to receive training in customer services and this has helped in improving service quality to customers. Twenty (i.e. 66.7%) respondents explained that various shades of advertisement are being mounted to leverage the brand equity of banks. According to Hollensen (2003) brand equity is “the value of a brand, based on the extent to which it has high brand loyalty name awareness, perceived quality, strong brand association and other assets such as patents, trademarks and channel relationships”. Eighteen (i.e.60%) respondents also indicated that their banks have been pushing its customer drive activities by striving hard to reduce the customers turnaround time.

### Views on staff welfare packages handed down to bank staff

Figure 1 – shows that thirteen (i.e. 43.4%) respondents indicated that the extension of the corporate mandate of their banks facilitated rapid promotions in their outfits.



**Figure 1.** Pie-chart showing staff welfare packages

**Source:** Field data 2017

Ten (i.e. 33.3%) respondents pointed out that staff started enjoying better fringe benefits especially in personal enhancement activities when their banks changed over to universal bank status. The remaining seven (i.e. 23.3%) respondents referred to more training and skills development activities as important staff welfare

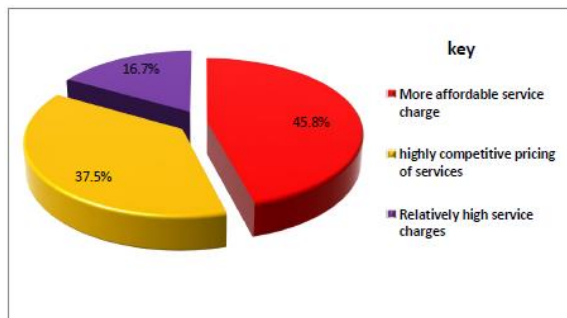
activities enjoyed from management. According to Daft (2006) well motivated staff often develops into the required human capital for effectively strategizing the direction of their organization.

### Analysis of issues concerning customer's views on banks' performance

Views of customers were sought on the business performance of state-owned banks as compared to those of the private indigenous and foreign banks. Results have been presented here-under.

#### Customer views on banks' service charges

Figure 2 - shows that twenty-two out of the forty-eight (i.e. 45.8%) respondents indicated that banks' service charges are more affordable than other private banks.



**Figure 2.** Pie-chart showing views on service charges of banks

**Source:** Field data 2017

Eighteen (i.e. 37.5%) respondents felt state owned banks service charges are highly competitive while the remaining eight (i.e.16.7%) respondents are of the conviction that the service charges being rolled out by the bank is relatively higher than what obtains in other banks. The analysis above shows that 40 out of the 48 (i.e. 83.3%) respondent believe that state owned banks service charges reflect the prevailing market conditions and are therefore just fair. Kotler (2007) notes that pricing techniques are crucial factor in attracting and retaining customers.

#### Customer's views on effectiveness service delivery systems at state owned banks

Findings on customers' view on the effectiveness service delivery systems at state owned banks

**Table 4.3.** Frequency table on efficiency of service delivery system at state banks

| Response Type                     | Frequency (out of 48) | Percentage (%) |
|-----------------------------------|-----------------------|----------------|
| ATMs require regular maintenance  | 46                    | 96.0           |
| SMS is very efficient             | 44                    | 91.7           |
| More branches required            | 41                    | 85.4           |
| Bank statements should be regular | 38                    | 79.2           |

**Source:** Field data 2017

Table 4.3 – shows that 46 (i.e. 95.8%) respondents are not happy with the effectiveness of the Automated Teller Machine (ATMs) being operated by state owned banks. Forty-four (i.e. 91.7%) respondents commended the banks for their efficiency with which their short message services (SMS) activities are carried out. Perhaps it might be worth mentioning that through the SMS, customers are updated on the state of their balance at the bank. Forty-one (i.e. 85.4%) respondents also want the banks to open more branches so as to facilitate access to bank services across the country. Thirty-eight (i.e. 79.2%) respondents all wanted the banks to be more regular with the issuance of the periodic statements. Hellenes (2003) notes that expanding service delivery systems is one sure way of getting products and services closer to the door steps of potential patrons.

#### Customers views on additional services they wish to have

The nature of the study demanded that customers' views be sought on other services that they wish to enjoy in the state-owned banks.

Table 4.4 – shows that 16 (i.e. 33.3%) respondents would want the bank to be a bit more sympathetic with the operations of SMEs. They would prefer sponsorships on soft loan terms for them to visit world class Trade Fairs especially in China so as to meet new business development partners as obtains in Barclays Bank. Thirteen (27.1%) respondents want state owned banks to install more ATM systems at public places so as to improve access to their cash. Ten (i.e. 20.8%) respondents would like the banks to steam-line their loan granting procedure especially, deemphasizing the collateral security



requirement. Five (i.e. 10.4%) respondents want state owned banks to grant more personal loans to enhance their standard of living. Four (i.e. 8.4%) respondents appealed to the banks to grant longer period of loans. Hellenes (2003) holds the view that it is important for companies to discover the needs of customers and provide solutions. State owned banks should therefore listen to the views of their customers and act appropriately.

**Table 4.4.** Frequency table on additional services customers wanted at MBG

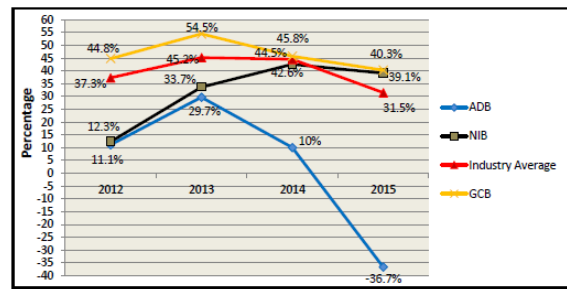
| Response Type  | Frequency (Out of 48) | Percentage (%) |
|--|-----------------------|----------------|
| Sponsor SMEs to International Trade Fair                             | 16                    | 33.3           |
| Install more ATMs at public places rather than or bank premises only | 13                    | 27.1           |
| Streamline loan granting procedure especially on collaterals         | 10                    | 20.8           |
| Grant more personal loans  | 5                     | 10.4           |
| Grant longer period loans  | 4                     | 8.4            |
| <b>Total</b>   | <b>48</b>             | <b>100</b>     |

Source: Field data (2017)

### Financial performance trend analysis of indigenous Ghanaian banks

Financial indicators discuss here are profit before tax, return on assets, return on equity, liquidity to deposit ratios as well as non-performing loans to loans (advances), these were compared with industry averages to indicate how state-owned banks have been performing in a highly competitive industry made up largely of multinational banks.

### PBT performance compared with industry average



**Figure 3.** Graph of profit before Tax (PBT) for state owned banks in Ghana

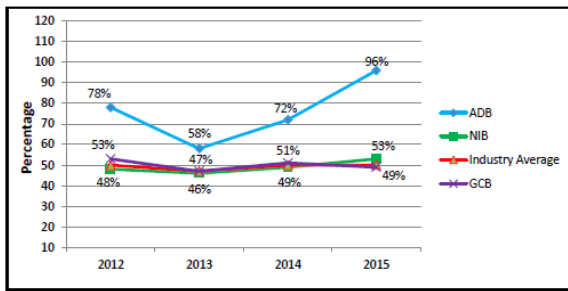
Source: Field Data, (2017)

It is evidenced from Figure 3, that profit before tax for GCB bank was much higher than the industry average over the period. NIB came up strongly in 2013 from an abysmal performance of 12.3% in 2012 to 33.7% which was still below Industry Average of 45.2% for 2013. NIB further increased its performance in PBT to 44.5% in 2014 but this time slightly, higher than industry average of 42.6%. The sustained growth in financial performance of NIB from 2013 could be attributed to change on leadership of the bank. In 2015, although PBT dropped to 39.1%, it was in consonance with industry prospects since Industry Average also came down from 42.6 in 2014 to 31.5% in 2015. In the case of ADB profit before Tax consistently fell below Industry Average over the 4-year period. In 2012, it performed 30% of Industry Average (i.e. 11.1% compared with 37.3%). In 2013 its PBT was 29.7% as compared with Industry Average of 45.2% performance in terms of PBT for 201 was equally below the belt since the bank only achieved less than 25% of industry average (i.e. 10% compared with 42.6%). The worsening PBT performance of the bank was climaxed in 2015 when PBT registered was negative 36.7%. It was not surprising when the chief executive was replaced the following year.

### Cost to revenue analysis

In the opinion of Asante et al (2011) the quantum of revenue consumed by operating cost to a large extent indicates how profitable an organization is. Figure 4, depicts cost to revenue performance of the three state owned banks as compared with industry averages.





**Figure 4.** Graph of cost to revenue to state owned banks in Ghana

**Source: Field Data (2017)**

Figure 4, shows that whereas the management of NIB and GCB bank made conscious efforts over the period to contain or reduce operating cost, ADB's cost to revenues ratios were way over the Industry Average. The Industry Average of cost to revenue averaged 50% over the four-year period. GCB bank consistently performed better than the industry average except in 2012 when it inched up to 53% and in 2014 i.e. 51%. NIB also recorded appreciable gains in cost to revenue ratios compared with industry average. Management performed better than 50% from 2012 to 2014. In 2015, owing to upwards adjustment in staff cost, as a result of rivalry in compensation packages with the industry, the bank had to step up its employee emoluments and other career development activities resulting in slight increase in cost from 49% in 2014 to 53% in 2015. The blotting cost of operation of ADB was attributed largely to huge staff cost burden as a result of pressure from political authorities to employ friends, relatives of ruling political party officials.

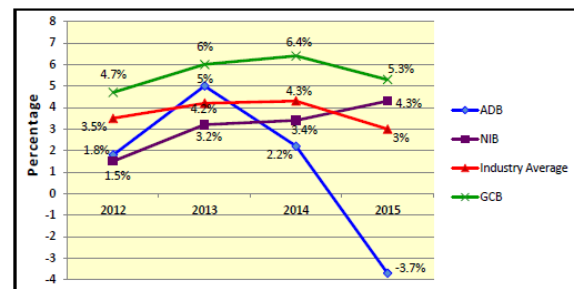
This is a clear case of government interference in the management of state banks. Furthermore, as an agricultural development bank, the bank was charged with implementing government policy towards enhancing fortunes of farmers who cultivate the main cash crop and major foreign exchange earner for the country i.e. Cocoa. Fertilizer, chemicals and other agricultural inputs continue to procure by the bank and sold to farmers at highly subsidized rates. Fisherman also receive outboard motor gear equipment's retailed it no profit. It is therefore not surprising that revenue is not enough to cover cost leading to relatively higher cost to revenue ratios depicted in figure 4,

Obviously, a cost to review of 96% in 2015 is only logical to produce a produce a profit before Tax of negative 36.7% for that year. Central

government ought to re-imburse management of the bank with full cost of farm inputs and fishing gear supplied to agriculture agencies.

### Return on assets (ROA)

The Return on Assets, According to Asiedu-Mante (2006) exhibits how well management of an organization has husbanded the resources both tangible and intangible at its disposal. One therefore expects, everything being equal, the banks to increase these ratios on year to year basis. Figure 5, illustrates the return on Assets of the three banks as compared with the industry average over the 4-year period from 2012 – 2015.



**Figure 5.** Graph of return on asset

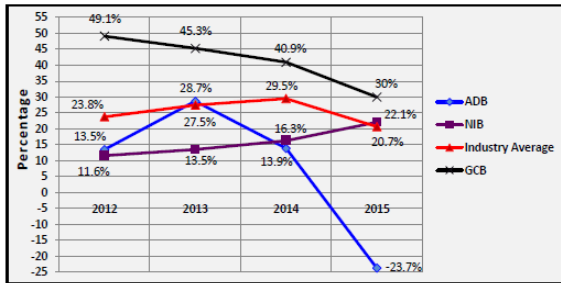
Source: Field Data, (2017)

Figure 5., shows that management of GCB Bank made conscious effort to out-perform the industry average, with respect to return on Asset, over the period. In 2012 it exceeded the industry Average by 34% in 2013 by 42.8% in 2014 by 49% and in 2015 by whopping 79%. From 2012 to 2014, NIB under-performed relative to the Industry Average. In 2015, NIB's return on Assets was 4.5% which exceeded that year's industry average of 3.0% by 50%. The bank did show appreciable progressive increment over the period from 2012 to 2015. When this trend is preserved, the bank is likely to perform above the Industry Average in the foreseeable future. The performance of ADB however fluctuated over the period as shown on figure 5, After exceeding Industry Average in 2013 by 19% (i.e. 5.0% compared with 4.2%) its performance dropped considerable to 2.2% in 2014 and negative 3.7% in 2015.

### Return on equity (RoE)

Shareholders must be encouraged to keep their investments in the business. One key way of doing this according to Otabil (2008) is to ensure that there is always an improvement in the return on shareholder's fund. A progressive increment

in the return of equity also assures shareholders of the safety of their investments Bawumia (2007). Organization therefore ought to work hard to steadily increase the return on their shareholder fund. Figure 6, reflects the return on equity of state-owned banks in Ghana.



**Figure 6.** Graph of return on equity

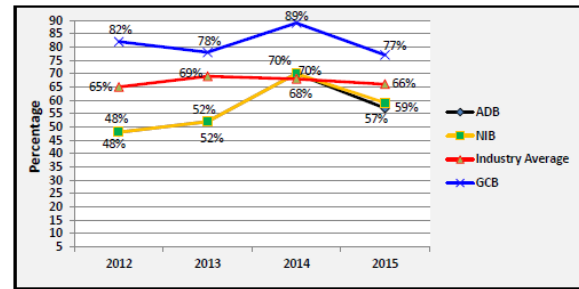
**Source: Field Data (2017)**

Figure 6, indicate that GCB Bank over the 4-year period has consistently performed above the industry average in respect of return on equity. However, the progressive decline could be a worrying trend. NIB, for the first 3 years performed below industry average but recorded 22.1% RoE in 2005 as again Industry Average of 20.7%. ADB's performance kept fluctuating over the period. In 2013 ADB achieved a RoE of 28.7% which was slightly higher than the Industrial Average of 27.5%. Its RoE declined to 13.9% in 2014 which was less than 50% of that year's Industrial Average of 29.3%. The year 2015 saw ADB performing its lowest RoE of -23.7%.

### Liquidity to total deposits ratio

Another measure of bank's efficiency in performance has to do with the ratio of available liquidity to total deposit. Customers lose confidence in the bank when their cheques cannot be cashed owing to liquidity challenges. It is therefore essential for the bank at all times, to ensure that liquidity levels are adequate to cover customer needs (Hollensen 2010). The liquidity to deposit ratio gives an indication as to how prepared the bank is towards meeting customers cash requirements.

Figure 7, shows the liquidity to total deposit ratios of state banks in Ghana as compared with the industry average.



**Figure 7.** Graph of liquidity to deposit ratio of state-owned bank

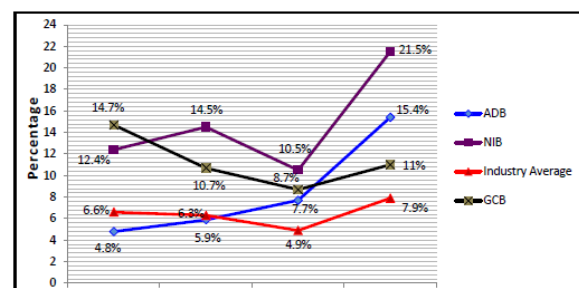
**Source: Field Data (2017)**

From figure 7, all the state-owned banks seem to be making conscious efforts at maintaining sufficient liquidity level at all times. This is evidenced by the fact that the graph gravitated around the industrial average. No bank wanted to scare its customers which could be suicidal to its continuous operation.

As a "big brother" GCB banks liquidity to deposit ratio was consistent well above the industrial average. In 2014 for instance it performed well above the industry average of 68% by 30.9%. ADB and NIB posted virtually the same figures from 2012 to 2014. In 2015, however NIB inched up slightly by 2% over ADB.

### Bad debt to cross loan of advance

Another measure of efficiency in banking operations lies with the ability to retrieve loans sold with the attendant interest. Huge bad debt stock usually destroys the working capital or liquidity base of the bank (Bawumia 2007). Banks with poor risk management strategies, according to Asiedu-Mante (2006) often incur colossal amounts of non-performing Asset. Figure 8 illustrates the performance of state-owned banks in respect of their ratios of Bad debt provision (impairment allowance) to gross loans and advances.



**Figure 8.** Graph of impairment to loans

Figure 8 reflects the fact that state owned banks in Ghana are struggling to keep their bad debt stock to appreciable level i.e. the industry average. NIB appears to be having a tough time with its borrowers. In recent past management adopted un-orthodox measures to retrieve over aged debts. Pictures of directors of loan defaulting companies were published in the local widely circulated newspapers. Some heavy-duty vehicles of building contractors were also seized yet the non-performing asset ratio continues to be high. A discussion with loan managers of NIB indicated that a chunk of the outstanding loans was contracted by trends and cronies of highly placed influential political people who control appointments to the membership of the board of directors.

During the 4-year period, NIB's never brought its bad debt ratio close to the industry average. In 2015 for instance, while the industry average was 7.9% the bank's ratio was as high as 21.5%. ADB started pretty well with its bad debt to loan ratio better than the industry average for 2012 (i.e. 4.8%) and 2013 (5.9%) which were better than the industry average for those years of 6.6% and 6.3% respectively. It is therefore surprising that ADB's Bad debt ratio for 2015 i.e. 15.4% doubled that year's industry average of 7.9%.

Loan managers of ADB lamented over the fact that a good quantity of their non-performing loans was in respect of funds released on government agricultural enhancement projects such as procuring and supplying fertilizers, various types of tractors, combined harvesters and other agric implements to farmers. On the part of GCB Bank, most of its debt emanated from loan approved for small and medium scale enterprises. Management of the bank endeavoured to keep its non-performing loan ratio around 10% although in 2015 it inched up to 11%. A long officer explained that a greater proportion of the small business operators in the country are more comfortable operating with GCB owing to its reasonable service charges as well as its visibility. The bank had 160 branches across the country with more spacious banking halls and car parking spaces which tend to magnetize customers to its fold.

## **Discussion of findings**

The discovery that state-owned banks leverage on advertisement to strengthen their brand equity has been mentioned in a good number of studies

in this domain of the academia. According to Hollensen (2003) brand equity is "the value of a brand, based on the extent to which it has high brand loyalty name awareness, perceived quality, strong brand association and other assets such as patents, trademarks and channel relationships". Kotler (2007) also extends the importance of brand equity to refer to an important intangible asset which assists retailers especially in the service sector to increase their customer base.

GCB bank in Ghana for instance has been noted for its bright coloured signage which makes the bank's identity a household one. The impressive performance of GCB bank and other banks, in the findings of Asiedu-Mante (2006) can be largely attributed to the catchy advertisements especially using the print and electronic media which tend to boost sensitization of the product spectrum of the bank. This in a way helps in shoring up the business activities of the organization concern.

The study also found out that the success story of the state-owned banks in Ghana emanate from well packaged welfare system which serve as a motivation tool towards retaining the cream of professionals to help meet the corporate objectives of these banks. Daft (2006) also noted from his study that when the human capital base of an organization is well nurtured in terms of compensation packages, employees tend to put up strategies that often excite and enhance productivity. Greenberg (2011) also observed from a similar study on employee motivation and explained that a well remunerated work force often looks on the business as their own and go all out to ensure that targets are met in good time if not exceeded. It can therefore be safely inferred that state-owned banks in Ghana are alive to their motivational responsibilities and therefore staff members are really working hard towards achieving mandated targets.

The findings that state-owned banks in Ghana charge very competitive service rates goes a very long way to explain the relatively larger customer base being controlled by most of them. This finding has been corroborated by Kotler (2007) who noted that at the contemporary market place, pricing is a crucial tool towards becoming a market leader. This is in sharp contrast to the views of Hollensen (2010) who also explains that management could embark upon price discrimination to win a lion share of the market especially when such price differentiations are

properly targeted towards appropriate segments of members within the market area.

The findings that state-owned banks are striving hard to achieve industry ratios with respect to cost to revenue gains a lot of currency in the existing literature on business performance. Mwanakatwe (2008) and Bawumia (2007) also found out that success in operations within the financial services environment often depend upon how one can cut cost thereby reducing wastage and enhancing profitability. Bawumia (2007) emphasizes that inventory management is one area where operating cost can be greatly reduced if management adopted modern ideas like lean management systems and relevant enterprise resource planning (ERP) software for managing affairs.

The study found out that banks do not extend medium- and long-term loans to clients especially small businesses and this often runs counter the developmental agenda of these business outfits which are development partners of the banks. Mwanakatwe (2008) upheld these findings in her article on a similar study and noted that shorter term loan is less risky to small scale enterprises than larger firms and therefore banks are more comfortable extending loans with gestation periods not exceeding twelve months to small businesses. Asante et al (2011) on the other hand are of the view that if government could put in some protectionist measures to cushion the banks against the huge burden of non-performing assets then, there will be a clear way forward for the banks to lend on a much longer basis to the customers especially the small scale enterprises.

### **Areas for further research**

The discovery that political authorities influence the direction of investment in loan portfolios of state-owned banks came as a huge surprise to observers. It is therefore necessary for some study to be conducted with the view to ascertaining how government hand can be removed entirely from the operations of state-owned institutions especially banks. The study noted that some of these funds actually help political parties in the run up to presidential and parliamentary elections.

### **Recommendations**

Based on the findings made in the study the following recommendations are logical:

### **Improving profitability**

Although cost of operations of state-owned banks especially GCB bank and NIB were nearing industry average, it was realized that ADB cost of operation was unreasonably high. In 2015 for instance, ADB's cost of operations amounted to 96% of revenue. In such circumstances, how is the bank expected to make profit? This problem can be solved if government influence in the management of the company's liquidity is reduced to the barest minimum.

Furthermore, leaders in the industry such as Barclays Bank of Ghana and Ecobank Ghana have out-sourced their front-line function i.e. the bank tellers are no longer employees of these banks. This has been explained as part of measures put in place by management to reduce staff cost. Management of state-owned banks should also explore the possibility of outsourcing its teller corp. so as to further improve upon its operating cost.

### **Business clinics for the SMEs**

The study uncovered the fact that state owned banks are yet to establish capacity building workshops for its small and medium scale operators. An industry leader such as Standard Chartered Bank and Barclays Bank hold quarterly business clinics for the SME sector and thus is helping in no small measure towards seizing a lion's share of the industry. It is therefore recommended that immediate steps are taken to develop a strategy towards forming a business clinic within the SME group of the bank. Where this category of customer's is exposed to financial management skills, some sanity could be registered in the way they conduct their expenditure patterns.

### **Proper administration of the ATM system.**

Customer's displeasure at the performance of the bank's ATMs presupposes that management should take a close look at this brand of ATM systems that is currently being used. Some performance contract should be established for efficient after sale service of these machines. The situation where customers could access their funds over the weekend is not only reprehensible but totally unacceptable. The bank should also consider positioning ATMs at public bus terminus, Gas stations, premises of super and hyper markets etc.

## Conclusions

Taking cognizance of the fact that state owned banks have not been established merely to make profit but also render service to Ghanaians presupposes that government should periodically throw in some funds to strengthen the liquidity of these banks. For instance, state owned banks operate in less profitable areas in sub urban towns where foreign banks and purely private and local banks will dare not venture.

The relatively comfortable service charges offered by the state-owned banks are also attempt to make life more a bit more palatable for the citizens and for that matter government must find a way of compensating the banks. The fact that the non-performing asset ratio to loans and advances within the state banks hardly get closer to the industry average suggest that all is not well with the loan granting mechanisms and that industry regulators must prevail on government departments who use the service of these banks to fully re-imburse the banks for such services. Finally, the state-owned banks really performing great service to citizens and therefore all impediments must be removed to help them operate more efficiently.

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