Corporate Governance and Corporate Sustainability nexus of banks in Ghana: Is Bank Age relevant?

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Abstract

The aim of the study is to explore the nexus between corporate governance and the corporate sustainability of banks in Ghana and further investigate the moderating role of bank age on the nexus. Primary data was obtained through the administration of questionnaires to senior management personnel of the banks. Covariance Based Structural Equation Model (CB-SEM) was employed to analyse the data using AMOS software.

The findings of the study indicate that, corporate governance practices of the banks influence their sustainability initiatives and performance. It also reveals that bank age moderates the relationship between corporate governance and bank sustainability.

The study presents significant contribution to theoretical and empirical literature. In addition, it has significant implication for future policies relating to the sector and likely to influence policies which offer young banks the opportunity to be guided by the old banks on their road to achieving sustainability.

The focus of the study on banks in Ghana is a limitation of the study. Therefore, it is recommended that, future studies should relate to a broader context such as Sub Sahara Africa, Africa, Asia, Europe among others. Such studies should consider a comparative study for old and young banks to provide outcome to influence policies relating to sustainability and governance.

Keywords: *Corporate governance, Corporate Sustainability, Bank Age, Banks in Ghana*

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1.0 Introduction

Persistently, corporate governance remains critical in the corporate world with several discourse on how it influences short-term corporate performance and long-term corporate performance such as sustainability performance. Such debates have become very prominent in recent times due to strong emergence and penetration of sustainability in the corporate world across various industries.

In Africa, sustainability practices and disclosures are rapidly gaining grounds with each jurisdiction putting in measures and regulations to promote sustainability practices and reporting. It has become necessary for the continent to promote corporate sustainability strategy and policy harmonization and standard sustainability reporting to remain competitive in the current global market. Regional Economic Communities such as Economic Community of West Africa States (ECOWAS) and the African Continental Free Trade Area (ACFTA) are platforms available to enhance sustainability especially corporate sustainability in Africa.

In Ghana, sustainability reporting has gained prominence over the years, in line with the growing global emphasis on corporate social responsibility and sustainable practices. In 2008, the Securities and Exchange Commission (SEC) issued guidelines for listed companies to promote sustainability reporting practices. Ghana's Securities and Exchange Commission (SEC) is pivotal role in driving the focus of firms on their social and environmental performance and reporting and not solely focusing on their financial performance and reporting. In recent times, Ghanaian Financial Institutions including banks have made significant strides to promote a sustainable economy through sustainable banking. In line with this position, the regulator, Bank of Ghana (BoG) established a sustainable banking framework and Ghana Sustainable Banking Principles (GSBPs) launched in 2019 to drive innovation, market resilience and sustainable economy. The sector has also paid significant attention to corporate governance especially in the post 2017 banking crisis where weaknesses in corporate governance emerged as one of the top most attribute of the failed banks and the crisis. The regulator, again introduced the corporate governance directive with provisions which are meant to enhance corporate governance practices in the sector.

Existing literature suggest corporate governance and corporate sustainability are interrelated concepts that are crucial in the modern business world. In exploring the corporate governance and corporate sustainability nexus, prior empirical studies by Hussain, Rigoni and Orij(2018) on corporate governance and sustainability performance: analysis of Triple Bottom Line performance with a sample of 152 reports issued by selected firms during the study period from 2007 to 2011 concluded that the relationships that exist between most corporate governance characteristics and social as well as environmental sustainability but was unable to establish any significant relationship between corporate governance and economic sustainability. The content analysis was employed on sustainability reports of the selected firms. Since the study was conducted on US-based companies which is a developed economy, it is imperative to explore the developing economy perspective such as Ghana since these two categories of economies vary in terms of their legislation, governance structure, economic activities, economic development and growth.

Khan, Muttakin and Siddiqui (2013) also explored the relationship, by empirically studying governance and social sustainability by focusing on corporate social responsibility (CSR) disclosures. Unlike the earlier study, the study was conducted in an emerging economy but the scope of the study was narrowed down to social sustainability specifically CSR. The study sample was also limited to 116 manufacturing companies listed with Dhaka Stock Exchange (DSE) in Bangladesh from 2005 to 2009. These limitations leadings to gaps in the literature hence, the current study addressed the gaps by exploring the economic, social and environmental dimensions of sustainability. It further contributes to literature by extending the empirical works to include the banking industry.

It is evident that empirical works on corporate governance and corporate sustainability nexus exist in literature, however, most of these works relate to specific industry or firms, with most of them pertaining to jurisdictions outside Ghana and limited focus on sustainability dimensions. Drawing from the significant contribution of banks to Ghana’s economic growth, developments relating to corporate governance and corporate sustainability in Ghana’s banking sector, empirical evidence and the identified gaps existing in literature makes it imperative to conduct this study to establish the link between corporate governance and corporate sustainability in the Ghanaian banking sector and further examine the moderating role of bank age on the relationship.

In conclusion, this study significantly contributes to empirical literature and has the potential to influence the direction of future policies. Empirically, literature is enhanced with the provision of empirical works on the corporate governance and corporate sustainability nexus in the context of banking firms in Ghana and further evidence on the moderating role of bank age on the nexus. From policy perspective, it will provide key insights to policy makers and regulators such as Bank of Ghana and the Ghana Securities and Exchange Commission in formulating specific policies for the banking sector in future.

2.0 Literature Review

2.1 Theoretical Review

Legitimacy theory

Suchman (1995) the legitimacy theory projects a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions. It theory suggests social contract exist between firms and the societies. In view of that, firms make disclosures on their social and environmental sustainability practices to project socially and environmentally responsible image which serves as a foundation for mitigating legitimacy gap which arises when firms fail to meet the expectations of society from the implicit and explicit socially constructed contracts between the firm and the society. This theory clearly explains corporate sustainability practices and disclosures are performed to meet the expectations of various stakeholders who have stake in secured environment, compliance with laws and regulations, community development, protection of human rights, employee development, employee occupational health and safety. These are social contracts which are created implicitly and explicitly between the firm and stakeholders in the society. Critics, however argue that the implicit contracts are dynamic and changes over time and require swift and appropriate responses from management.

2.2 Empirical Review and Hypotheses

Corporate Governance and corporate sustainability

Extant literature exist on corporate governance, with some literature suggesting corporate sustainability is rapidly emerging and continuously dominate in most corporate world discourse. Several empirical works have attempted to explore the corporate governance and corporate sustainability nexus. In the case of Cancela, Neves, Rodrigues and Gomes Dias (2020), the influence of corporate governance characteristics on corporate sustainability performance was examined. The study focused 99 non-financial companies of the Iberian Peninsula listed between 2013 and 2017, with 32 companies from Euronext Lisbon, and 67 from Madrid Stock Exchange. The findings suggest that, the economic dimension is determined by public debt, the board size, board diversity and the existence of an audit committee. Regarding the environmental dimension, the board size and the presence of the audit committee, as well the corporate social responsibility committee, are the most important determinants. Finally, the social dimension was influenced by the board size, audit committee and the control variable of capital structure. However, the non-inclusion of financial firms creates a gap in literature thereby necessitating the current study which addresses this gap by contextualizing the banking industry.

Again, Naciti (2019) explored corporate governance and board of directors: the effect of a board composition on firm sustainability performance without any investigation into the moderating effect of any moderating variable. It however, concluded that, firms with more diversity on the board and a separation between chair and CEO roles show higher sustainability performance. The study focused on 362 firms in 46 different countries and employed system generalized method of moment two-step estimator, with data from Sustainalytics and Compustat databases. Therefore, this study enhances literature by further examining the moderating effect of bank age on the link between corporate governance and corporate sustainability. Shrivastava and Addas (2014) also examined the relationship between corporate governance and sustainability, using the extensive Bloomberg Environmental, Social and Governance (ESG) data universe and concluded that environmental disclosure scores and ESG disclosure scores are strongly influenced by governance disclosure scores. Similar to the study by Naciti (2019), the study did not capture any moderating or mediating effect on the relationship between corporate governance and corporate sustainability but the current study mitigates the gap by exploring the moderating effect of firm age.

Empirical studies conducted by Janggu, Darus, Zain and Sawani, (2014) on the impact of corporate governance on the sustainability of firms in Malaysia revealed that the professionalism and size of the board and the members' composition have a significant effect on sustainability initiatives efforts. In Australia, Klettner, Clarke & Boersma (2014) also studied corporate governance activities with respect to sustainability initiatives in 50 Australian companies, concluded that leadership structures included both the board of directors and the general management in the expansion of sustainability initiatives. While Amran et al. (2014) examined the impact of the composition of the board of directors - board size, independence and gender diversity on sustainability reporting quality in the Asia-Pacific region. These empirical works suggest a link between corporate governance and corporate sustainability, however, there is a contextual gap since these studies focused on jurisdictions outside Ghana hence necessitated this study.

Mohammadi, Saeidi and Naghshbandi (2021) studied the effect of board and audit committee characteristics on corporate social responsibility (CSR) in Iranian companies listed on stock exchanges. The study adopted a sample of 150 companies using the screening method in obtaining the sample while employing multivariate regression for data analysis and finally concluded that board size, board independence, audit committee size, audit committee independence, financial expertise of audit committee members have significant effect on CSR while managerial ownership and CEO duality have no significant effect on CSR. The study solely emphasizes on CSR which is an aspect of social sustainability. In the same vein, Burke, Hoitash and Hoitash (2019) show that the board-level commitment appears to be positively related with corporate social performance. Also, Mallin, Michelon and Raggi (2013) assessed the effects of corporate governance on social and environmental disclosure by adopting and analysing the disclosures of 100 U.S. Best Corporate Citizens in the period 2005–2007 which argued that the stakeholders' orientation of corporate governance is positively associated with corporate social performance and social and environmental disclosure. While Ezhilarasi and Kabra (2017) as well as Brammer and Pavelin (2008) again, investigated the link between corporate governance practices and corporate sustainability from the perspective of environmental disclosure. Limiting these empirical studies to specific dimensions of corporate sustainability has undoubtedly necessitated this study which explores corporate sustainability holistically from economic, social and environmental sustainability dimensions.

Elmghaamez, Nwachukwu and Ntim (2023) examined the impact of board committee indexes on the relationship between Environmental, Social, and Governance (ESG) disclosure, and accounting- and market-based performance measures of multinational enterprises (MNEs). Quantile regression analysis and a large balanced panel data of 500 multinational companies operating in 40 countries from 2009 to 2019 were adopted for the study. Though the study focused on a broad sample and also encompassed various industry and multinational firms, literature on industry specific is relevant for appropriate sector specific policies.

Based on the theoretical perspective of the legitimacy theory underlining this study and the existing empirical evidence, it is hypothesized that:

H1: Corporate governance has significant positive effect on corporate sustainability of banks

Moderating Effect of Bank Age

Literature suggest that, firm's age has the tendency to moderate the relationship between corporate sustainability and performance (Abdi, Li & Càmara-Turull, 2022; D'Amato & Falivena, 2020; Saeidi, Sofian, Saeidi, Saeidi and Saaeidi, 2015). D'Amato and Falivena (2020) explored the moderation effect of firm size and firm age on ESG implementation and firm value from a sample of Western European companies. It was opined that size and age significantly moderate the association. Empirical evidence established the moderating effect of firm size and age to the corporate sustainability and performance link, but the moderating effect of firm size and age on the relationship between corporate governance and corporate sustainability are yet to be explored. This current study therefore explored the moderating role of bank age on corporate governance and sustainability of banks.

Consistent with the earlier study, Abdi et al (2022) explored the impact of sustainability (ESG) disclosure on firm value and financial performance (FP) in airline industry: the moderating role of size and age and the findings show that, although statistically insignificant except for governance dimension, it somehow moderates the linkage of ESG initiatives and financial performance. The study considered 38 airlines worldwide for the period 2009 to 2019 and data obtained were analyzed employing interaction effects. The study focused on the airline industry which significantly vary from the banking industry in terms of their operations and regulations hence the appropriateness of the study's focus on the banking sector.

Drawing from empirical and theoretical literature, it is hypothesized that:

H2: Bank Age significantly moderates the relationship between corporate governance and sustainability of banks

2.3 Conceptual Framework

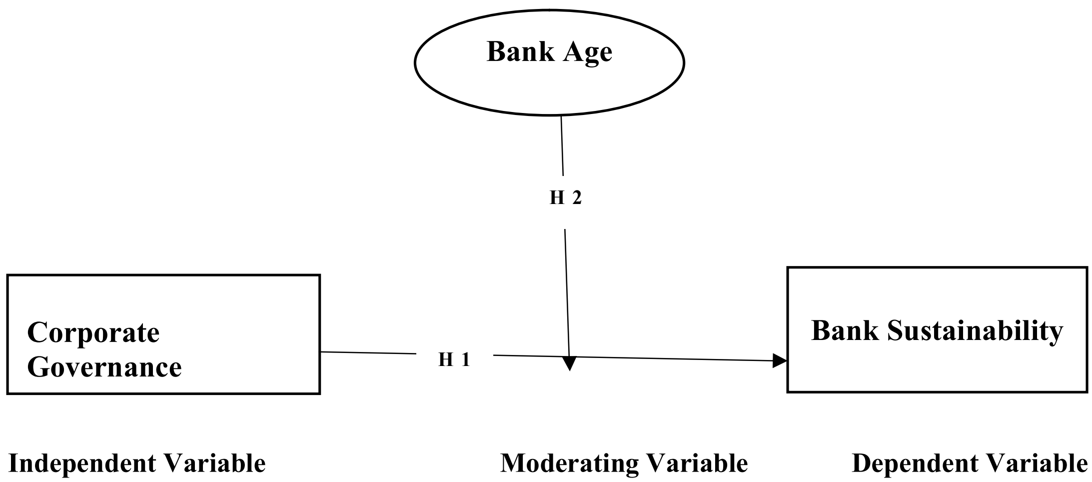

Figure 1: Conceptual framework
Source: Researcher's construct

3.0 Methodology

The study focused on 23 banks operating in the Ghanaian banking sector. 302 senior management personnel from all the 23 banks were sampled using the stratified sampling technique by classifying them into strata according to their functional roles. Structured questionnaires were administered to seek responses from the sampled senior management to obtain data. The administered questionnaire contained series of questions that relates to the study variables: bank age, corporate governance and bank sustainability. Using the Analysis of Moment Structures (AMOS) software, the obtained data was analysed by employing the Covariance Based Square Structural Equation Modelling (CB - SEM).

3.1 Estimation Model:

$$Bank\ Sustainability\ (BSUS) = \beta_o + \beta_1 CGov + E \ldots\ldots\ldots\ldots (1)$$

$$Bank\ Sustainability\ (BSUS) = \beta_o + \beta_1 CGov + \beta_2\, BAge + E \ldots\ldots\ldots\ldots (2)$$

Where *BSUS is bank sustainability, CGov is the composite corporate governance, BAge is bank age,* β_o *is the constant,* β_1 *is the coefficient of the composite corporate governance,* β_2 *is the coefficient of bank age and* E *is error term.*

Table 1: Measurement of Research Variables

Construct	Variables	Measurement
Corporate Governance	Board Size	The number of directors on the board
	Board Composition	Diversified and requisite professional qualification and expertise of board members
	Board Independence	Majority non-executives directors on the board Non-executive director board chair
	Audit Committee	Presence of accounting and finance experts committee members, non-executive directors and chair of the committee
	Board Gender Diversity	Fair representation of females on the board and their equitable role in leadership and managerial roles
	Directors' Training	Directors' involvement in periodic directors' training programs
Bank Sustainability	Economic Sustainability	Market development, economic value distribution, financial inclusion and literacy
	Social Sustainability	Corporate social responsibility, employment, employee rights, development and safety
	Environmental Sustainability	Investment in environmental protection, energy, waste and sanitation management
Bank Age	Years of existence	Number of year the bank has existed since incorporation

Source: Researcher's Construct, 2023

4.0 Results and Discussion of Findings

In measuring the measurement model, factor analysis which comprises of exploratory and confirmatory factor analysis is performed. The exploratory factor analysis assesses the necessity of retaining these constructs and minimize redundancy, with several diagnostic tests such as the Kaiser-Meyer-Olkin (KMO) Sampling Adequacy test, Cumulative Variance Explained (CVE), and Bartlett's test of Sphericity at significance level of 1% confidence level were carried out. Conventional thresholds were applied, requiring KMO values to exceed 0.5, CVE to surpass 50%, and Bartlett's test p-values to register as significant. Table 4.1, presents minimum KMO value of 0.89 and maximum of 0.90, CVE values of 0.62 to 0.63, and the p-values from Bartlett's test are consistently significant at the 1% confidence level, which collectively confirm the adequacy and sufficiency of the dataset for factor analysis.

Table 4.1: Summary of Results showing Factor Analysis of the Study Variables

Variables	CVE (%)	KMO	Bartlett's test (P-Value)
Corporate Governance	62.32	.90	.000
Sustainability	63.16	.89	.000

Source: Field Data (2023)

While with the confirmatory factor analysis, absolute fit indices, notably the G.F.I of 0.907, RMSEA of 0.060, SRMR of 0.038 and incremental fit indices including comparative Fit Index (CFI) with a value of 0.957 and TLI of 0.937 are within the recommended thresholds hence underscores that the study model effectively represents the dataset, the model's exceptional quality and model fits suitability.

Table 4.2: Fit Indices for Measurement Model

Measurement	Research Model	Recommended Threshold level	Interpretation
CMIN	358.343	--	--
DF	173	--	--
CMIN/DF	2.071	Bln 1 & 3	Excellent
C.F.I	.957	>.95	Excellent
G.F.I	.907	>.95	Acceptable
RMSEA	.060	<.06	Excellent
SRMR	.038	<.08	Excellent
TLI	.937	>.95	Acceptable
IFI	.958	>.95	Excellent

Source: Modified from Field Data (2023)

In measuring the model, the internal consistency reliability is established with the Cronbach Alpha (**α)** of 0.925 and 0.955 and Composite Reliability (CR) of 0.908 and 0.879 which exceeds the threshold of 0.70 recommended by Hair et al. (2017) are presented in table 4.3. The convergent validity of the study constructs were also assessed using the Average Variance Extracted (AVE). The AVE for the independent (corporate governance) of 0.552 is greater than the threshold of 0.50 while that of the dependent (sustainability) construct is 0.446, however, Hair et al (2014) indicate that since the CR of 0.879 achieves the threshold, the convergent validity of the constructs are established.

Table 4.3: Validity and Reliability Analyses of Study Variables

Variables	Initial items	Final items	α	CR	AVE
Corporate Governance	20	8	.925	.908	.552
Sustainability	31	9	.955	.879	.446

NOTE: α = Cronbach's Alpha, CR = Composite Reliability, AVE = Average Variance Explained

Source: Modified from Field Data (2023)

Discriminant validity establish how distinct the constructs are from each other. Discriminant validity is established when the correlation between two constructs is less than 0.85(Kenny, 2016) implying that, correlation values of 0.85 or higher indicate discriminant validity issues. From table 4.4, the correlation coefficient between the corporate governance and bank sustainability constructs is 0.798 which falls below the threshold of 0.85, hence discriminant validity is established.

Table 4.4 Validity Measures

Variable	AVE	CG	SUS	PERF.
CG	.552	**.743**		
SUS	.446	.798	**.668**	

Source: Modified from Field Data (2023)

In testing hypothesis 1, table 4.5 presents a significant positive relationship between corporate governance on sustainability of banks (β=.683, $P_{(.000)}$<.001). This empirical evidence reveals a direct relationship between corporate governance and bank sustainability and consistent with the findings of Cancela et al(2020); Naciti (2019); Mallin et al(2013) and Burke et al. (2019) which affirms the existing nexus. This finding is an indication than, banks who have strong and effective corporate governance mechanisms in place, perform better in their sustainability policies and practices.

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Table 4.5: Direct path Relationships

Hypo-Theses	Path Relationship	Structural Model	
		Estimate	P-Value
H1	Corporate Governance ---→ Bank Sustainability	.683***	.000

Source: Modified from Field Work (2023)

The moderation analysis examines whether the relationship between the independent variable (X=corporate governance) and the outcome variable (Y=bank sustainability) is contingent upon the presence of a third variable, known as the moderator (W= bank age). The moderation analysis, involves testing whether the relationship between X and Y is influenced by the presence or levels of the moderator variable W. Therefore, Table 4.5 shows that bank age moderates the relationship between corporate governance and bank sustainability (β=.107, P<.05, LB= .016, UB= .197). This suggest that, the older the bank, the more enhanced their sustainability practices with better governance structure. The implication is that, older banks are possibly more established, experienced and well-resourced to establish effective governance mechanisms and embark on strategic sustainability initiatives. This can influence policies which offer the young banks the opportunity to be guided by the old banks. The outcome of this study is in line with the findings of D'Amato and Falivena (2020).

Table 4.6: Moderated path Relationships Model 1: bank performance

	Moderated path Relationships	Estimates	Lower Bounds (LB)	Upper Bounds (UB)	Decision
	Model 2: Sustainability				
	CG --→ Bank sustainability	.370**	.148	.593	
	Bank Age -----→ Bank sustainability	-.393*	-.739	-.047	
H2	CG --→Bank Age ----→ Bank Sust	.107*	.016	.197	Moderation

Source: Modified from Field Data (2023)

5.0 Conclusion and Implication of the Study

The prominence of corporate governance and corporate sustainability cannot be overlooked in the modern corporate world. Though some literature exist on the corporate governance and corporate sustainability nexus, this study further explored the effect of corporate governance on the sustainability of banks in Ghana and additionally investigated the moderating effect of bank age on the relationship.

The outcome of the study outlines that corporate governance practices of the banks influences their corporate sustainability performance significantly. It subsequently suggests that as the banks advance in age, its age has influence on the relationship between corporate governance and corporate sustainability. This provides evidence that, the more the bank advances in age, the more experienced, equipped and strategically positioned they become to enhance their sustainability activities and disclosures. This consequently enriches the corporate brand which is facilitated by strong governance mechanisms put in place by such banks.

The contribution of this study to both theoretical and empirical literature is enormous with significant implications for future policies. The study adds up to the literature on legitimacy theory. It also enriches the empirical literature on corporate governance and corporate sustainability nexus with the introduction of the moderating effect of firm age (bank age) which brings on board a new perspective to the existing literature.

Obviously, the study is limited to banks excluding several financial institutions, Ghanaian geographical jurisdiction and solely exploring the moderating role of bank age. To address these limitations and continuously enhance literature and future policy directions, it therefore suggested that, future studies should consider the inclusion of other financial institutions such as microfinance and insurance firms. Future researchers should consider exploring further, a comparative study for older and younger banks to influence policies relating to sustainability and governance. Finally, a broader context beyond the Ghanaian context such as Sub Sahara Africa, Africa, Asia, Europe among others.

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