The Influence of Ownership Structure on Performance of Ghanaian Insurance and Banking Firms

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ABSTRACT

As at 2005, Ghana diversified 351 state-owned enterprises (either fully or partially owned), which attracted a substantial foreign direct investment into the country. This was to introduce efficiency into the management of these public enterprises, hence, the belief that ownership and, in particular, specific type of composition of corporate ownership structure has an impact on a firm’s performance. This paper examines the influence of ownership structure on firm performance in Ghana as one of the buoyant and emerging economies in Sub-Saharan Africa. Using data from a period of 2000-2010, panel regression was employed to analyze the impact of three major types of ownership structure and the determinants of performance. The ownership structures that are employed in this study are: (1) foreign ownership, (2) Government ownership, and (3) Close corporations. Using two accounting-based measures of financial performance (i.e. return on equity (ROE) and return on asset (ROA), and based on the sample of banks and insurance firms the result showed that both closed corporations and government-owned firms did not perform better than the foreign owned firms. The study also found that inflation and exchange rate are the two main macroeconomic variables that influence firm performance.

Keywords - Ownership structure, Business performance, Financial industry, Close corporation, Government ownership.

1.0 INTRODUCTION

The Ghanaian financial industry is dominated by banks and insurance companies. These two institutions are highly regulated. In the case of the insurance industry, it is highly regulated and monitored because insurance serves an essential purpose. Its failure would deprive both consumers and government of social and economic benefits (Malik, 2011). Insurance companies perform various activities to make sure that insurance consumers have access to insurance coverage and are treated fairly by insurers and their agents. Insurance
companies provide long-term financial resources to any economy!

The importance of the banking industry can also not be overemphasized. It is with this view that most governments are concerned about the problems of the banking sector (Tandelilin et al., 2007). The possible reasons for the higher degree of government supervision of the banking sector includes the fact that bank instability leads to a contagion effect, which affects a class of banks or even the entire financial system and the economy. In performing their duties, both banks and insurance companies operate on the principle of shareholder wealth maximization. In trying to increase the profitability of the firm, these financial institutions are affected by firm-specific factors and economic factors.

One of the firm-specific factors that influence profitability has been said to be ownership. Research has shown that corporate ownership in relation to firm value started along the lines of the Berle and Means (1932) paradigm of large corporations. These have dispersed share ownership among small share-holders and are effectively run by their managements. Despite numerous studies on ownership and how it affects firm value, there still remains wide disagreement on the issue. The main intuition behind Pagano and Roell (1998) model, is that, other large shareholders help mitigate agency costs by monitoring the controlling shareholder. Gomes and Novaes (2000) in their model indicated a disagreement among controlling shareholders produces deadlocks that prevent them from taking actions that hurt minority shareholders. According to Bennedsen and Wolfenzon (2000), no individual shareholder has sufficient votes to individually control the firms studied. Therefore, shareholders interact to form a coalition to control firms. This coalition formation improves firm performance since no individual shareholder is able to take any actions without the consent of the other shareholders in the coalition.

Consistent with the above theoretical arguments, legal scholars extensively recommend that the main shareholder surrenders some control to minority shareholders at the outset in order to improve the overall firm performance (O’Neal and Thompson, 1985). Jensen and Merkling (1976) posit that equity ownership by different groups have different effects on the firm performance. Furthermore, Hansmann (1988) stated that public finance and insurance companies can support further indebtedness, if it promises to improve the financial position of the firm and shareholder's value in the long-run. Thomsen and Pedersen (1997) argued that banks, which play a dual role as lenders and owners would not favor high risk ventures with great potential for returns since such a policy is inimical to loan repayment. Government may also play the dual role of regulator and owner. For each of these owners (stakeholders), preferences regarding company strategy will involve a tradeoff between the pursuit of shareholder value and other goals (Hill & Jones, 1982).

Ownership preferences and investment choices have been found to be influenced by many factors, amongst which risk taken levels is a determinant. In cases, where owners have economic relations with the firm, their priority would be to protect their interests even though this may lead to low investment returns, and generally low profitability. The importance of ownership structure is relevant not only in terms of how much equity a shareholder owns, but also who this shareholder is, that is, a private person, manager, institutions, government and foreign investors. Shleifer and Vishny, (1997); Welch, (2000) and Xu and Wang, (1997) all stressed on the importance of shareholders and posited that investors differ in terms of wealth, risk aversion, and the
priority they attach to shareholder value relative to other goals.

This study adds mainly two things to the academic literature. From the above studies reviewed, we observed that there are mixed results and hence, the researchers would want to ascertain (using the Ghanaian insurance industry and banking industry) whether there is a relationship between type of ownership and performance of the industries in Ghana. Thus, this study seeks to add to the debate by making it clear from the Ghanaian perspective whether the type of ownership adds to the value of the firm. Secondly, little reference can be found or made from the African perspective in terms of influence of ownership structure on firm performance for these two important industries.

This study, therefore, attempts to fill these research gaps. The remainder of this paper is structured as follows: Section 2 gives an overview of recent developments in the Ghanaian financial sector; Section 3 reviews literature related to ownership and performance; Section 4 presents the methodology adopted for the study; Sections 5 discusses empirical results; and Section 6 entails conclusions, policy implications and recommendations from the study.

2.0 Overview of the Ghanaian Financial Sector

According to the Financial Sector Strategic Plan (FINSSP II) for the Republic of Ghana (2012) the financial sector in Ghana comprises the capital market which is made up of 35 listed companies, 26 banks, 135 rural banks, 17 life insurance companies, 23 non-life insurance companies, 2 reinsurance companies, Pension funds and provident funds, non-banking financial institutions which include 19 savings and loans, 500 credit unions amongst others. The insurance industry has been said to be one of the fastest growing sub-sector of the Ghanaian financial sector. However, its market penetration in Ghana is low. It is faced with challenges of which increasing the capacity of the insurers to do more of all classes of business, enhancing relationships with customers, moving towards risk-based supervision, and enhancing the solvency of insurers (capital adequacy, liabilities relative to assets and capital investment income) marked an important milestone in the Ghanaian insurance industry.

The passage and the implementation of the Insurance Act, 2006 (Act 724) resulted in very significant changes in the structure and operations of the industry. One major change is the significant increase in the number of insurance companies from 25 in 2006 to 42 in 2007. Although this has resulted in keener competition, the harmful effect of the competition so far cannot be underestimated. This has mainly been in the form of undercutting, unethical underwriting and marketing practices, and over-reliance on credit to manage the competition. These harmful effects are currently posing major challenges to the growth and efficiency of the industry (National Insurance Commission Report, 2010). The insurance penetration, which is defined as the contribution of total insurance premiums to GDP, in real terms is still around 1%. This can be compared to those of South Africa (14.8%), Namibia (7.3%), Kenya (2.8%), Nigeria (0.5%), and Malaysia (4.8%). (Source: Swiss Re 2010 Sigma report).

To introduce efficiency in the management of the public enterprises, the government of Ghana as at 2005 diversified 351 state-owned enterprises either fully or partially. Most of these state enterprises were financial institutions. This attracted a substantial direct foreign investment into the country. In 1988, the government introduced the Financial Sector Adjustment Programme (FINSAP) as
part of the Economic Recovery Programme (ERP). Anin (2000) confirms that, a vital part of the Economic Recovery Program was the World Bank’s determination to carry out a thorough reform of Ghana’s banking system, paying special attention to the state banking sector. He posited that prior to the reform; the state’s domination of the banking industry was overwhelming in its extent: majority of the banking institutions were directly fully owned by the state or indirectly by its agencies. Even the expatriate banks had about 40% of their respective equities owned by the state. Nearly 70% of credit granted by the banks was earmarked either to meet the public sector borrowing requirement or to satisfy the credit requirements of state enterprises.

FINSAP was designed or intended to restructure and revitalize the financial services sector through legislative and regulatory instruments. Specifically, FINSAP sought to remove financial restrictions and inject new capital into the financial services sector. To put it in a better perspective, according to Ziorklui et al, (2001) the banking sector was characterized by inefficiency and high operating costs, huge non-performing loan portfolios, inadequate provision for loan losses, insolvency of the banking system, capital inadequacy and inflated profit, hence, the need for suitable capital structure and sufficient capital adequacy requirements.

The diversification of these public enterprises holds the belief that ownership, in particular, specific type of composition of ownership has an impact on a firm’s performance. Several studies (such as Jensen and Merkling (1976), Hansmann (1988), Thomsen and Pedersen (1997) and Hill & Jones, (1982)) shown that the type of ownership a company maintains does have an influence on the performance of the company.

3.0 LITERATURE REVIEW

There is wide disagreement regarding the relationship between ownership structure and firm performance. According to Demsetz (1983) a firm’s ownership structure, whether concentrated or dispersed, should maximize firm’s value. Therefore, no systematic and generalized relation ought to exist between differences in ownership and variations in firm performance. Nearly twenty years after, Demsetz & Villalonga (2001) maintain the same idea. Shleifer & Vishny, (1997); Welch, (2000) and Xu & Wang, (1997), argued that the objective functions and the costs of exercising control over managers vary substantially for different types of owners. The implication is that, it is important to determine not only how much equity a shareholder owns, but also who this shareholder is (that is, a private person, manager, institution, government and foreign investors). Investors differ in terms of wealth, risk aversion, and the priority they attach to shareholder value relative to other goals, hence their ability to affect performance.

Ownership can be classified into different categories. Closed Corporation which is associated with privately held company can be said to be a company whose stock is closely held by a limited number of shareholders, usually directors or managers, and not publicly traded. According to Avner, Ben-Ner and Ting Ren (2008) a key distinguishing feature of close corporations is the absence of a market for their shares. As a result of this illiquidity, investors in close corporations have no easy way to adjust the ownership structure as conditions change. This makes ownership an exogenous, predetermined variable, which is sufficient to motivate its use as an independent variable in a performance regression (Smith and Watts 1992).

Belkhir (2006) posited that managers and directors, whose personal wealth is
significantly linked to the value of the firm, will have the incentive to act in the best interests of outside shareholders. According to Jensen and Meckling (1976), if outside shareholders can without cost assess the extent to which an owner-manager imposes agency costs on other shareholders, the market value of the firm's stock will be reduced, decreasing therefore the owner's wealth. The corporate governance literature argues that increasing stock ownership by managers and directors can be an effective control mechanism designed to reduce the moral hazard behavior of managers. If this is an effective control mechanism, then an increase in the extent of its use would induce a reduction in the level of other monitoring mechanisms such as the presence of block-holders and outside directors.

Another type of ownership structure is the presence of shareholders holding a high proportion of the firm's capital; this constitutes another way of mitigating the effects of the separation of ownership and control on firm value. The manager of a firm in which each shareholder holds only a small fraction of the firm's capital can engage in value reducing activities (Berle and Means, 1932). Indeed, a shareholder with a little stake in the firm has weak incentives to engage in the monitoring of managers since he or she supports all the costs of monitoring while getting only a small fraction of the benefits (the typical free rider problem). In contrast, an ownership structure in which one or more shareholders own a large block of stock has the potential for preventing managers from engaging in morally hazardous behavior.

The presence of block-holders may represent a threat to the company's management because of the power to launch a proxy fight, or in the extreme, a takeover bid. A block-holder may also nominate a person to represent him or her on the board of directors, in order to ensure that management is acting in the interests of shareholders. Consequently, firms with block-holder ownership are expected to have less agency problems, and the need for alternative control mechanisms is reduced.

The literature deals extensively with differences in performance between state-owned enterprises and privately-owned firms. In the context of transition economies, researchers seek to tease out the performance effects of different forms of privatization, varieties of private owners, diverse market structures, and institutional environments (e.g., Megginson and Netter, 2001; Brown, Earle and Telegedy, 2006). Broadly, these studies find that replacing state ownership from large swaths of the economy has a favorable effect on labor productivity and related measures of economic performance, as one would expect from the agency. This is a theoretical perspective that predicts that letting private owners run firms instead of state-appointed managers should generate some efficiency gains.

Regarding government (state) ownership, there is much more unanimity in the academic circles. State ownership has been regarded as inefficient and bureaucratic. De Alessi (1980, 1982) considers the lack of incentives as the major argument against state ownership. According to him, ownership rights are exercised by some level in the bureaucracy, which does not have clear incentives to improve firm performance. Aydin, Sayim and Yalama (2007) concluded that, on average, multi-national enterprises have performed better than the domestically owned firms as a result of performance-based incentives and transfer of new technology and globally-tested management practices to the firm.

Lee (2008) focused on the role of two main dimensions of the ownership structure: ownership concentration (i.e., the distribution...
of shares owned by majority shareholders) and identity of owners (especially, foreign investors and institutional investors). The study found that firm performance measured by the accounting rate of return on assets generally improved as ownership concentration increases, but the effects of foreign ownership and institutional ownership are insignificant. The study also found that there exist a hump-shaped relationship between ownership concentration and firm performance, in which firm performance peaks at intermediate levels of ownership concentration. The study provided some empirical support for the hypothesis that as ownership concentration increases, the positive monitoring effect of concentrated ownership first dominates but later is outweighed by the negative effects, such as the expropriation of minority shareholders. The empirical findings shed light on the role ownership structure plays in corporate performance, and thus offer insights to policy makers interested in improving corporate governance systems in an emerging economy.

In a study by Prasetyantoko & Parmono, (2008), the finding of the study revealed that ownership factor matters on firm performance by the evidence that firms with majority foreign ownership have much higher performance in both measurements namely return on asset (ROA) and market capitalization growth than domestically-owned firms. The study also found that macro factors are more important variables inducing firm Performance, rather than firm-specific factors. Also Gorg & Greenaway (2004) posits that foreign ownership plays a crucial role in firm performance, particularly in developing and transitional economies.

In relation to other factors that affect financial institutions’ performance, Agiobenebo and Ezirim (2002) examined the relationship between profitability and financial intermediation in Nigeria. Results showed that the level of premium to total assets is positively related to level of profitability of insurance companies and also significant. The factors of net potential, loan levels, and investments were found to be positively related but insignificant. Malik (2011) showed that there is significant positive association between size of the company and profitability. The result also shows that the volume of capital is significantly and positively related to profitability. Loss ratio showed negative but significant relationship with profitability. Almajali, Alamro and Al-Soub (2012) studied factors that mostly affect financial performance of Jordanian Insurance Companies. Their results showed that the following variables (Leverage, liquidity, Size, Management competence index) have a positive statistical effect on the financial performance of Jordanian insurance companies. The researchers recommended that a high consideration of increasing the company assets will lead to a good financial performance and there is a significant need to have highly qualified employees in the top managerial staff.

4.0 METHODOLOGY

The study employed quantitative analysis and the use of panel data covering insurance companies and banks in Ghana. The model employed follows a similar model used by Malik (2012) but with some slight modification. Malik (2012) focused on only the firm-specific variables that affect insurance companies, but our study employs both firm-specific and macroeconomic variable for both banks and insurance. Because the variables involved are non-stationary macroeconomic variables, the testing of the coefficients using the standard statistical inference might lead to spurious results. The study relies on secondary data obtained from the financial reports (2000–2010) of the banks from Bank of Ghana and
financial reports from National Insurance Commission. Data collected from the financial reports are classified into foreign, closed corporations and government owned firms. The aim of this classification is to find out if there are any differences in performance in relation to the type of ownership. The financial institutions were divided into three category based on the number of shares designated to investors in the company. Banks and insurance companies are considered to be foreign if foreign investment in them is more than 50%. Closed Corporations are privately held companies (a company, the stock of which is closely held by a limited number of shareholders, usually directors or managers, and not publicly traded). For government-owned firms, a representation of above 50% ownership deemed to be government-owned firm. In all, twenty (20) financial institutions (comprising eight (8) insurance companies and twelve (12) banks) were identified over the period 2000–2010.

**Model Specification**

\[ \text{Perf}_i = \beta_0 + \beta_1\text{OWN}_i + \beta_2\text{SIZE}_i + \beta_3\text{CON}_i + \beta_4\text{RISK}_i + \beta_5\text{CAP}_i + \beta_6\text{GDP}_i + \beta_7\text{INF}_i + \beta_8\text{EX}_i + \mu_i \]

**PERF** is the performance of insurance companies and banks, measured by (ROA= Net Income/Total Asset, ROE= Net Income/Total Equity

**OWN** is Ownership, it is measured as a dummy variable, (0) Foreign Ownership, (1) Closed corporations and (2) Government ownership

**RISK** is measured separately for both institutions. For the insurance companies risk is measured using the **Variable Loss Ratio**, as measured by the ratio of incurred claims to the earned premiums, this measurement was employed by Malik (2011).

In terms of banks, the risk index used is that suggested by Hannah and Hanweck (1988) and employed by other researchers such as Sinkey, (2002), Marco and Fenandez (2008). To capture the overall risk of the banks the empirical form of this index is:

\[ RI = \left[ E(ROA) + \text{CAP} \right]/\sigma_{ROA} \]

Where: \( E(ROA) = \) Expected Return on Assets. Sinkey (2002) in estimating the Expected ROA extrapolated from recent actual ROA and let \( E(ROA) = \) equal it.

\[ \text{CAP} = EM^{-1} \] The inverse of the Equity Multiplier or Capital to Asset ratio

\[ \sigma_{ROA} = \] The Standard Deviation of ROA

A lower RI implies a riskier financial institution and a higher RI implies a safer bank (Sinkey, 2002).

**SIZE** is measured using logarithm of total assets

**CON** which represents Concentration; is measured using the HH Index, \( HH = \sum (ms)^2 \) where "mms" is the market share. It is measured using \( \left( \frac{TA_i}{TA_{ind}} \right) \). \( TA_i \) is total asset for individual insurance companies and \( TA_{ind} \) represent total assets of the companies in the industry.

**INF** represents Inflation and it is measured using the annual inflation rate

\[ \text{EX} = \] Exchange rate is measure by the real effective exchange rate which is The weighted average of a country’s currency relative to an index or basket of other major currencies adjusted for the effects of inflation.
\[ \mu_{it} = \mu_i + \nu_{it} \] Where \( \mu_i \) is the insurance and bank specific effect and \( \nu_{it} \) is a random term.

5.0 DISCUSSIONS

5.1 Descriptive Statistics and Correlation Analysis

Tables 1 and 2 provide a summary of the descriptive statistics of the selected variables and a correlation matrix, respectively. From Table 1, the mean ROE and ROA were 32% and 1%, respectively for both insurance companies and banks.

Table 1 Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>0.3199</td>
<td>0.674619</td>
<td>-1.7446</td>
<td>4.147307</td>
</tr>
<tr>
<td>ROA</td>
<td>0.095955</td>
<td>0.10888</td>
<td>-0.57208</td>
<td>0.4037</td>
</tr>
<tr>
<td>OWN</td>
<td>1.03409</td>
<td>.079926</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>SIZE</td>
<td>6.22827</td>
<td>1.8376</td>
<td>0.7</td>
<td>13.7</td>
</tr>
<tr>
<td>RISK</td>
<td>7.16491</td>
<td>6.5640</td>
<td>-2.5999</td>
<td>21.0103</td>
</tr>
<tr>
<td>HH</td>
<td>0.60831</td>
<td>0.0731923</td>
<td>0</td>
<td>0.4847729</td>
</tr>
<tr>
<td>RGDP</td>
<td>5.9200034</td>
<td>1.50876</td>
<td>3.7</td>
<td>8.431</td>
</tr>
<tr>
<td>INF</td>
<td>16.24671</td>
<td>6.23545</td>
<td>10.708</td>
<td>32.905</td>
</tr>
<tr>
<td>REEXRT</td>
<td>97.22824</td>
<td>5.207763</td>
<td>91.486</td>
<td>105.252</td>
</tr>
</tbody>
</table>

The correlation matrix in Table 3 shows low correlations between key independent variables. This implies that the model estimation is not likely to suffer from multicollinearity bias. The existence of correlation of about 0.8 or larger will indicate that there is problem of multicollinearity (Lewis-Back 1993).
5.2 Regression Analysis (Co-integrated for insurance companies and banks)

Table 3: Regression Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>ROA</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>0.002531</td>
<td>0.0246234</td>
</tr>
<tr>
<td></td>
<td>(1.90*)</td>
<td>(2.65****)</td>
</tr>
<tr>
<td>Size</td>
<td>-0.0037945</td>
<td>0.043837</td>
</tr>
<tr>
<td></td>
<td>(-0.87)</td>
<td>(1.43)</td>
</tr>
<tr>
<td>Own (government)</td>
<td>-0.026376</td>
<td>-0.187906</td>
</tr>
<tr>
<td></td>
<td>(-1.5)</td>
<td>(-1.5)</td>
</tr>
<tr>
<td>Own (closed corporation)</td>
<td>-0.0738963</td>
<td>-0.0436051</td>
</tr>
<tr>
<td></td>
<td>(-3.68****)</td>
<td>(-0.31)</td>
</tr>
<tr>
<td>HH</td>
<td>0.0759521</td>
<td>0.6199138</td>
</tr>
<tr>
<td></td>
<td>(0.71)</td>
<td>(0.83)</td>
</tr>
<tr>
<td>RGDP</td>
<td>-0.0057256</td>
<td>-0.0187866</td>
</tr>
<tr>
<td></td>
<td>(-0.90)</td>
<td>(0.42)</td>
</tr>
<tr>
<td>Inflation</td>
<td>0.0062356</td>
<td>0.0362217</td>
</tr>
<tr>
<td></td>
<td>(4.12****)</td>
<td>(3.42****)</td>
</tr>
<tr>
<td>Real Exchange rate</td>
<td>0.003431</td>
<td>0.0080992</td>
</tr>
<tr>
<td></td>
<td>(1.91*)</td>
<td>(0.64)</td>
</tr>
<tr>
<td>Observation</td>
<td>176</td>
<td>176</td>
</tr>
<tr>
<td>F(8,167)</td>
<td>9.80</td>
<td>3.30</td>
</tr>
<tr>
<td>Prob &gt;F</td>
<td>0.0000</td>
<td>0.0016</td>
</tr>
<tr>
<td>R-Squared</td>
<td>0.3195</td>
<td>0.1363</td>
</tr>
<tr>
<td>Adj R-Squared</td>
<td>0.2869</td>
<td>0.0950</td>
</tr>
</tbody>
</table>

Notes:  1 Figures in brackets are t values.  
   ** Significance at 1% level;  
   *** Significance at 5% level;  
   Significance at 10% level.

Table 3 shows the regression results of the effect of the ownership structure (foreign, government and closed corporation) on ROA and ROE for both insurance companies and banks. In the case of ROA, government owned firms were seen not to perform better than the foreign managed companies as shown by the negative relationship. In terms of closed corporations which also did not perform better than their foreign-owned firm it was however significant. In the case of ROE ownership both government and closed corporation were also found not to be performing better than the foreign-owned corporation. However, the results were insignificant. In terms of state ownership, the results are not surprising since most studies have found that government-owned firms are negatively related to performance as cited by De Alessi (1980, 1982) who posits that state ownership has been regarded as inefficient and bureaucratic and consider the lack of incentives as the major argument against state ownership. According to him, ownership rights are exercised by some level in the bureaucracy, which does not have clear incentives to improve firm performance.

The relationship between foreign owned corporations is in line with studies such as Aydin, Sayim and Yalama (2007), Prasetyantoko and Parmono, (2008) and Gorg and Greenaway (2004). Aydin, Sayim and Yalama (2007), concluded that, on average, multi-national enterprises have performed better than the domestically owned firms as a result of performance-based incentives and transfer of new technology and globally-tested management practices to the firm. Prasetyantoko and Parmono, (2008) revealed that ownership factor matters on firm performance by the evidence that firms with majority foreign ownership have much higher performance in both measurements namely, return on asset (ROA) and market capitalization growth than domestically-owned firms. Gorg & Greenaway (2004) posits that foreign ownership plays a crucial role in firm performance, particularly in developing and transitional economies.

The risk levels of both insurance and banks show a positive and significant relationship with performance for both ROA and ROE. The result suggests that lower risk level leads to an increase in bank performance due to the use of the RI as a measure for risk. Thus, as banks reduce their risk levels, there is greater credit availability which leads to the opportunity to
increase the productive assets and bank's profit. This result is consistent with that of Cebenoyan and Strahan (2004) and Smithson and Simkins (2005). In the case of insurance companies, the positive relationship between risk and performance basically shows that insurance companies are profitable when their risk level is high and unprofitable when their risk level is low. However, our study contradicts Malik (2012) who posits that loss ratio showed negative but significant relationship with profitability.

In both performance measures of ROA and ROE, company size was insignificant, but was negatively related to ROA and positively related to ROE. This is explained by the fact that larger financial institutions have better diversification opportunities and thus exhibit lower cost of funding than smaller ones. As a result, larger banks exhibit relatively higher levels of Net Interest Income and, hence, income (Smirlock, 1985; Akhavein et al., 1997). Majumdar, 1997 argues that the size of the firm affects its financial performance in many ways. Large firms can exploit economies of scale and scope and thus being more efficient compared to small firms. In addition, small firms may have less power than large firms; hence they may find it difficult to compete with the large firms particularly in highly competitive markets. On the other hand, as firms become larger, they might suffer from inefficiencies, leading to inferior financial performance as in the case of the ROA in our study. Theory, therefore, is equivocal on the precise relationship between size and performance (Majumdar, 1997).

In terms of concentration of the market which is measured by the HH index, it was insignificant and positively related to performance (ROA and ROE). For the macroeconomic variables, Real GDP was insignificant and negatively related to firm performance for both measures. GDP result indicates that banks appear to slow down on lending activities and concentrate on interest income from higher interest rates as economic activity declines. This way, banks tend to consolidate on these gains, thereby yielding higher performance. In the case of inflation for both measures, it was significantly and positively related to firm performance. These stems from the fact that inflation feeds into interest rate and this in effect affects performance. Higher inflation rates are generally associated with high loan interest rates and therefore high income leading to higher bank profitability. The findings of this study correspond with studies such as Bourke (1989), Molyneux and Thornton (1992) and Demirguc-Kunt and Huizinga (1999) who all reported a positive association between inflation and profitability. Exchange rate was significant and positively related to firm performance in the case of ROA and insignificant and positively related to ROE. This finding is generally in line with Prasetyantoko & Parmono, (2008), who found that macro factors are more important variables inducing firm performance, rather than firm-specific factors.

6.0 CONCLUSIONS AND POLICY IMPLICATIONS

This study examines ownership structure and firm performance. Three types of ownership structure were employed in the study. These were foreign, government, and closed corporation ownership on ROA and ROE. The findings of our study showed that both closed corporations and government owned firms were seen not to perform better than the foreign owned firms. In terms of state ownership the results are not surprising since most studies have found that government owned firms are negatively related to performance (De Alessi (1980 and 1982)).

Two main macroeconomic variables were
found to influence firm performance. These are inflation and exchange rate. In the case of inflation for both measures, it was significantly and positively related to firm performance. These stems from the fact that inflation feeds into interest rate and this in effect affects performance. Higher inflation rates are generally associated with high loan interest rates and therefore high income leading to higher bank profitability. For insurance companies, this means an increase in premiums and negotiating on higher interest rates on their investment. Exchange rate was also found to be significant and positively related to firm performance.

The practical relevance of our study lies in the fact that foreign firms on the average performed better than the other two types of ownership structure due to the fact that foreign owned firms transfer new technology and globally-tested management practices to the firm they manage. This increases performance on the average for developing countries like Ghana. Gorg & Greenaway (2004) posits that foreign ownership plays a crucial role in firm performance, particularly in developing and transitional economies. Also macroeconomic variables, such as inflation and exchange rates, were seen to be factors that determine firm performance. Thus, when management is planning, they should consider the macroeconomic variables as Prasetyantoko & Parmonono, (2008), posit that macro factors are more important variables inducing firm performance, rather than firm-specific factors.

One weakness of our study is that majority of the banks and insurance companies in Ghana are not listed (only eight banks and two insurance companies are listed) on the stock exchange, hence our sample consists of both listed and unlisted banks and we are unable to use market-based performance measures. Nonetheless, this weakness does not bias our results.

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Reducing Poverty Through a Social Grants Programme: The Case of Ghana

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Abstract

Social security and pensions have an important role to play in sustaining poverty reduction efforts. Ghana is one of the countries in SSA that is implementing a social grants policy under it’s National Social Protection Strategy (NSPS, 2007). This study investigates the extent to which Ghana’s social grant policies can impact on poverty, inequality and government fiscals in Ghana. The main findings of this study are that a universal social grants programme will reduce the incidence and depth of poverty as well as inequality in Ghana. It however argues that for Ghana, affordability remains the biggest challenge.

Keywords: Poverty, Inequality, Microsimulation, Child Support, Universal Pensions, Social Grants

Introduction

Current socio-economic development thinking recognises the important role that social security and pensions play in sustaining poverty reduction efforts. Growth has and remains an important ingredient of poverty reduction. Developing economies today grapple with how best to translate macroeconomic improvements into rapid and sustained poverty reduction. Indeed the literature on growth and poverty point to the fact that growth is necessary but not sufficient condition for rapid poverty reduction. Many developing countries have witnessed growth and a reduction in the incidence of poverty. However, the depth of poverty and inequality remains problematic in these countries. Whilst the arguments for and against pro-poor policies and whether growth is always pro-poor will continue, the fact still remains that growth remains an important ingredient of poverty reduction and so does other 'non-growth' policies such as social security and employment policies (see inter alia Adelzedah 2007, Kakwani and Pernia 2000, Ravillion and Chen 2003). The global financial crises of 2008 has reinforced calls for social safety net programmes. It is not surprising that the number of countries subscribing to social safety net programmes have increased and the scale of these programmes have also increased. An example is Mexico's PROGRESA which...