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# GOVERNANCE DYNAMICS AND CAPITALISATION OF BANKING SECTORS IN ANGLOPHONE WEST AFRICAN COUNTRIES

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**ABSTRACT:** *The commencement of the African Continental Free Trade Area (AfCFTA) has re-echoed the need for more in-depth empirical investigations on the nexus between governance dynamics and capitalisation of banking sectors in Anglophone West African countries. The Economic Community of West African States (ECOWAS) is a major player in African continental trade in terms of large markets, abundant natural resources, and relative peace and stability. Institutional-stakeholder theory underpinned this quantitative-parametric study, which used secondary data from Gambia, Ghana, Nigeria, and Sierra Leone from 2001 to 2020. Liberia was excluded from the study due to incomplete data. Governance is the independent variable with two facets: internal dynamics (board effectiveness and management efficiency) and external dynamics (the rule of law quality and quality of political and financial systems). Deposit interest rate and passage of time are the control variables. Capitalisation of banking sectors is the dependent variable. Descriptively, the studied banking sectors have weak but positive operating outlooks, with Ghana outperforming others (followed by Gambia, Sierra Leone and Nigeria). The work re-established that no single governance model is a 'fit-for-all' as the country-wise findings differ. Results of the multivariate general linear model show that the political system has a significant positive effect on the aggregate capitalisation of studied banking sectors; board effectiveness, management efficiency, and financial system have significant negative effects on the aggregate capitalisation of sampled banking sectors. The study established the relevance of institutional-stakeholder theory and the importance of controlling corruption. The need for synergy among the banking sectors that were studied cannot be ignored, as further studies could cover other economies and economic groups.*

**KEYWORDS:** AfCFTA, banking sector capitalisation, board effectiveness, ECOWAS, governance.


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# INTRODUCTION

## Background to the Study

The Economic Community of West African States (ECOWAS) is a sub-regional economic integration group established on May 28, 1975, via the treaty of Lagos, Nigeria. Its fifteen member countries are Benin, Burkina Faso, Cape Verde, Cote d' Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal and Togo. The ECOWAS is a trading union that aims to create a single large trading bloc through economic cooperation (ECOWAS, 2016). The Anglophone member countries of the ECOWAS are The Gambia, Ghana, Liberia, Mali, Nigeria, and Sierra Leone. This study covers the five ECOWAS countries colonised by the United Kingdom. These five Anglophone countries have the same legal system and official communication language–English. Some of the areas of cooperation among member countries are industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial issues, and social and cultural matters. In varying degrees, banking crises lead to catastrophic problems for employees, communities, depositors, borrowers, investors, governments, shareholders, and numerous other stakeholders. Wahua (2017; p. 5) asserts that bank failures and banking crises create "fears, anxieties, and loss of productivity" for various stakeholders locally and internationally. Salient factors have been identified as the immediate and remote causes of bank failures across the globe, and they include: weak and poor corporate governance structures and practices (Afolabi, 2018; Debrah, 2018; Safo, 2018); credit risk or bad loans or non-performing loans (Afolabi, 2018; Cucinelli, 2015; Nyavor, 2017); government recapitalisation regulation (Frimpong, 2018); corruption and embezzlement of banks' assets (Boadi, 2018); and weak legal/regulatory and political institutions (Wahua, 2017). Undercapitalisation is a symptom of banks' inadequate capital to withstand financial shock. This particular problem pervades the entire banking landscape (including the Economic Community of West African States.

The impacts of politics, rule of law, financial system, board effectiveness, managerial efficiency, and leverage have been tested in Malaysia, Indonesia, Nigeria, Turkey, and Egypt (Wahua, 2017), but this is yet to be tested in English speaking ECOWAS countries of Ghana, Liberia, Sierra Leone, and the Gambia. Again, while the relevance of stakeholder-institutional theory has been tested in a comparative study of selected D-countries of Malaysia, Indonesia, Nigeria, Turkey, and Egypt, it is yet to be tested in English-speaking ECOWAS countries of Ghana, Liberia, Sierra Leone, and the Gambia. This is because "banks have multiple stakeholders and are regulated by institutions such as politics, finance, law, and others" (Wahua, 2017; p. 9). This study would theoretically and practically test the relevance of both institutional factors (politics, law, and finance) and banks' stakeholder factors (management efficiency and board effectiveness) to the capital adequacy ratio of banks in English-speaking ECOWAS countries of Ghana, Liberia, Sierra Leone, and the Gambia. Osei-Attakora (2022) demanded that the impacts of politics, law, and economics (finance) should be carried out in different economies. The Anglophone ECOWAS countries are good case studies for this study due to their large markets, economic position, and abundant human and natural resources. The central purpose of this study is to empirically establish the direct effect of corporate governance on banks' capital adequacy in selected Anglophone ECOWAS countries (Gambia, Ghana, Nigeria and Sierra Leone). The study aims to investigate the direct effects of politics, law,


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finance, board effectiveness, and management efficiency on the capitalisation of banking sectors in Anglophone West African Countries.

## LITERATURE

### Theoretical and Conceptual Frameworks

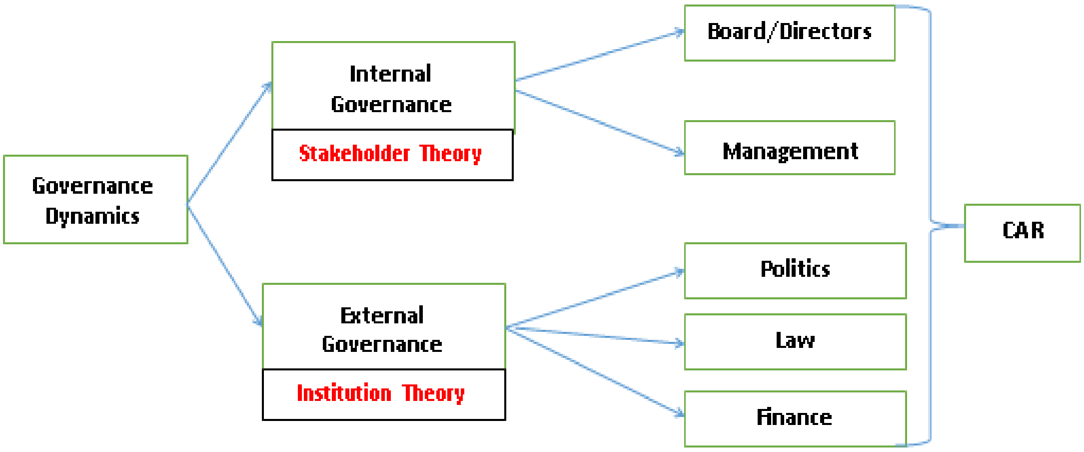


**Figure 1:** *Theoretical and Conceptual diagram*. Source: Authors (2023)

The study is hinged on the stakeholder-institutional theoretical framework adopted by Wahua (2017), who observed that stakeholder theory is an extension of agency theory, and stakeholder theory asserts that business managers and directors should adopt all-inclusive business models with the prime purpose of accounting and protecting the multiple stakeholders' interests, which includes communities, governments, employees, financial claimants, customers, environments, blackmailers, terrorists, and the business interest.

Relying on Gillan (2006), the stakeholder-institutional theory is relevant in this study because banking operation is a nexus of institutions (politics, law/regulations, financial markets, communities, and culture) and stakeholders (board of directors, management team, creditors, customers, employees, shareholders and suppliers). The critical institutions covered in this study are the four countries' political, legal and financial institutions of the four countries. The stakeholders are premised on the effectiveness of banks' boards and the efficiency of management to promote and protect the interests of all stakeholders.


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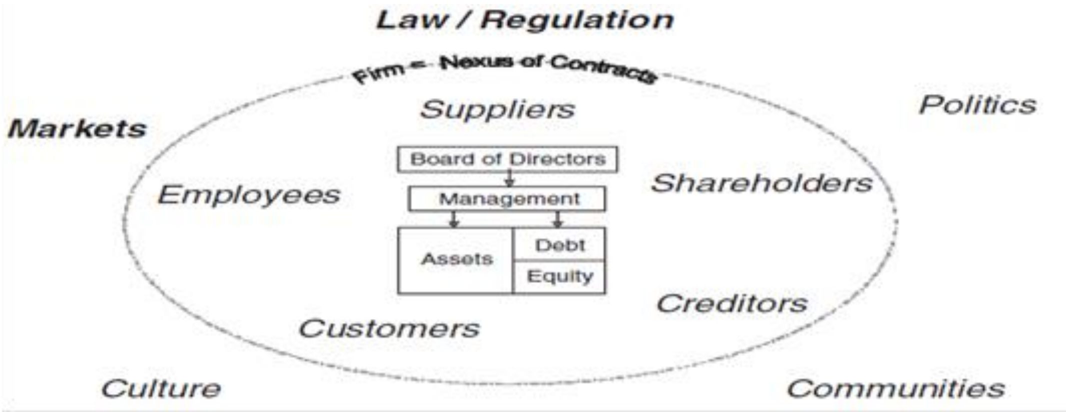


**Figure 2**: *Stakeholder-institutional framework*. Source: Gillan (2006)

## Political System

"Political power and country politics influence virtually everything in a country: banking, commerce, financial system, economics, ownership, control, regulation, etcetera. As such, political power and political system can make or mar the fabrics of a country if they are judged good or bad" (Wahua, 2015; p. 59).

Multifaceted differences mark countries' political systems; as such, their impacts on businesses would hardly be the same (Tsekpo, 2022). Discussions around politics and corporate governance generally centre on how corrupt or corruption-free the political system is (Osei-Attakora, 2021). There is an element of corruption in all political systems, but in varying degrees. The political economic theory holds that capital flies to safer climes from corrupt political systems, and this is because corrupt politics breeds violence and destruction of investments and productivity (UNCTAD, 2018). The ability of home and foreign investors to buy the equity of banks is a function of political stability in the country; as such, Abotsi (2016) believes that at a high level of political quality, corruption extends beyond paying bribes to win contracts, obtaining official permits, and avoiding unnecessary bureaucratic delays to situations where there is malfunctioning of general political framework of a country. When this (general breakdown of the national political system) happens, anarchy sets in, and the economy becomes too risky for investment. This leads to capital flight to safer heavens. Therefore, banks' ability to raise adequate capital is directly affected by the quality of the country's political system (Lambsdorff et al., 2018). Wahua (2020) states that the corrupt political system significantly negatively affected Nigeria's banking sector's capital adequacy ratio between 1998 and 2014.


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**Legal System**

Banks are the nexus of hard and soft laws, and their incorporation, regulations and supervision involve different layers of countries' legal systems (Zeqiri & Bajrami, 2016). This is attributed to modern banking intermediation having no national boundaries: it is global. The minimum capital threshold of banks is set by the law(s) of a country, and banks that fall below a given capital base are forcefully liquidated as the state actor seizes their operating licenses (the recent banks' recapitalisation exercises in Nigeria and Ghana are valid examples). According to Hogan Lovells Firms (2015), countries with strong legal systems protect investors' proprietary rights, which directly impacts banks' ability to raise adequate capital from domestic and foreign investors (mostly institutional investors). Corporate governance is strong, with strong legal institutions that protect all stakeholders' interests because the legal system's primary purpose is to promote equity and harmonious living among individuals, businesses, and other bodies (Tsekpo, 2022). Johnson, Boone and Friedman (2000), as cited by Tsekpo (2022), asserted that during the Asian banking / financial crisis of 1997/1998, a weak legal system led to the erosion of countries' currencies, promoted corruption, and led to capital flight to safer havens. This, they opined, is because a weak legal system leads to lawlessness, abuse of court processes by the rich, and loss of investments and property rights, resulting in anarchy, instability, and wars. Wahua (2020) established that the legal system has different effects on banks' capital adequacy ratio (CAR): it is negative in Egypt, Malaysia and Pakistan; it is positive in Nigeria and Turkey; and it is significant in Egypt only (a country with weak legal system within the period studied).

**Financial System**

Banks raise capital (finance) through profit plough-back, floating of new shares in the capital market (stock exchange), or the raising of funds through the money market (Institute of Chartered Accountants of Nigeria, 2021). Therefore, the quality of capital and financial markets determine banks' ability to raise adequate capital for their money-creation function, intermediation role, and balancing economic activities in their host countries (Ashraf et al., 2019). Makoni (2015) adds that efficient capital markets responsibly anchor the financial and economic dimension of banks' capital adequacy theory and that well-developed and properly functioning capital and financial markets attract foreign firms to invest in countries' banks. Antwi's (2020) observation that Sub-Saharan banking industries are underdeveloped is supported by Wahua (2017), who traced the problem of underdevelopment of banking industries in Africa as a whole and other emerging countries in Asia to poor capitalisation of banks: a situation where banks' shareholders contribute circa 6 – 11% of the total assets of banks is abysmally poor thereby weakening the capacity of deposit-taking banks to withstand normal and abnormal operating shocks. The resultant effects are incessant deposit-taking banks' liquidation and bankruptcy. The 6 – 11% capital injection by bank shareholders of banks falls short of the 25% minimum threshold set by the Bank for International Settlement in 2011. Therefore, the need to develop Sub-Saharan African banks is generally to strengthen their capitalisation to the minimum benchmark set by the Bank for International Settlement.


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### Board of Directors’ Effectiveness

The fundamental objective of boards of directors is to protect firms' assets and liabilities; this is done through an effective oversight function in risk management (Bakin et al., 2015). Shareholders appoint directors to protect their interests primarily. The boards of directors are to monitor and check the activities of the management in order to ensure that shareholders have value for their investments: capital appreciation and periodic receipt of increased dividends (Tsekpo, 2022). Irawan and Anggono (2015) and Shaddady and Moore (2015) note that board effectiveness significantly affects banks’ capital adequacy, even though this significant effect could be positive or negative depending on the board’s modus operandi, vision, and mission.

### Management Teams’ Efficiency

The management team's efficiency is primarily measured with profit maximisation. Managers (as operators) must show their stewardship by increasing the firm's overall worth. Management efficiency significantly affects capital adequacy banks, which is supported by scholars such as Bakin, Acikalin, Aktas and Celik (2015) and Irawan and Anggono (2015). One notable exception is Workneh (2014), which empirically showed that management efficiency does not necessarily significantly affect a firm's capital adequacy.

### Capital Adequacy

Banks increase their capital base deliberately and via regulatory policy (as was recently witnessed in Nigeria and Ghana). In 2011, the Bank for International Settlements set a 25% minimum benchmark for shareholders’ commitment to their total assets. This could be achieved via increased share capital or capital plough back (Wahua, 2020). In an empirical study carried out by Wahua in 2017, it was established that banks in Africa and Asia do not meet the 25% benchmark for shareholders’ commitment to total capital. Specifically, overall Shareholders’ commitment to capital adequacy of banks in selected D-8 countries between 1998 and 2014 revealed that debt or non-shareholder funds accounted for 94%, 91%, 90%, 92%, and 89% of total assets held by banks in Egypt, Malaysia, Nigerian, Pakistan, and Turkey respectively (see Wahua, 2017).

### Empirical Review:

The work of Agustina, Winarno and Dyan (2021) studied the impact of good corporate governance (CG) on the capital adequacy ratio (CAR) of banks in Indonesia using Agency theory. The study used secondary data from the Federal Reserve Bank of Indonesia from 2015 to 2019. OLS multiple regression was used. Only listed banks were studied. The major variables used in the study are non-performing loans (a measure of board effectiveness), return on assets (a measure of management efficiency, and capital adequacy ratio (CAR). The work established that board effectiveness (NPL) and management efficiency (ROA) do not significantly impact bank CAR. Agustina, Winarno and Dyan (2021) agree with Jamil and Qureshi (2020) and disagree with Okoye, Evbuomwan, Achugamonu and Araghan (2016). The impacts of board effectiveness and management efficiency will be tested in this study at the country and group levels. The author recommends that there is a need to include the impact of institutional variables on future studies.


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Kakar, Ali, Bilal, Tahira, Tahir, Bahadar, Bukhari, Ullah and Aziz (2021) examined the impacts of corporate governance (CG) and risk management on the performance and capital adequacy of banks that operated in Pakistan between the years 2010 - 2015. This quantitative study anchored on Agency theory used secondary data extracted from annual reports of sampled banks. The data were analysed using the ordinary least square (OLS) multiple regression analysis. Risk management was measured with value at risk (VAR), and bank performance was measured with dummy variables. The study established that (i) corporate governance significantly negatively affects risk management (measured with value at risk). This implies that improved corporate governance effectiveness significantly decreases the value at risk of commercial banks. In contrast, laxity in corporate governance increases banks' value at risk, and (2) corporate governance has a significant positive effect on banks' capital adequacy. This implies that improved corporate governance effectiveness significantly increases commercial banks' capital adequacy, while laxity in corporate governance decreases banks' capital adequacy. This study calls for improved corporate governance architecture to reduce banks' non-performing loans of banks and increase their capital adequacy. Technically, when banks' loans are performing, they earn higher interest incomes, increasing their capital base via increased retained earnings.

Wijaya, Sulistyo and Roziq (2021) evaluated the impacts of corporate governance (CG) and capital adequacy ratio (CAR) on the profitability and financing risk of Sharia banks based on multiple theoretical models. This is quantitative research with secondary data from the Federal Reserve Bank of Indonesia from 2015- 2019. A partial least square (PLS) model of data analysis was used. The study established that corporate governance (CG) and capital adequacy ratio (CAR) affect financing risk and profitability. This is a new dimension in studying banks' corporate governance and capital adequacy, as corporate governance and capital adequacy (independent variables) are linked to financing risk and profitability (dependent variables). This is connected to the research carried out by Okoye, Evbuomwan, Achugamonu and Araghan (2016). Finally, the study suggests that further research on the theme should consider the following observations: the need for a larger sample size and the incorporation of return on assets (ROA) and non-performing loans (NPL) as the proxies of corporate governance performance. This proposed study measures board effectiveness and management efficiency with non-performing loans and returns on assets, respectively. The reason for this is that the overall function of the board of directors in the operation of deposit-taking banks across the globe is to protect banks' assets and liabilities. At the same time, that of the management team is profit maximisation (Wahua, 2017).

Jamil and Qureshi (2020) investigated the association between corporate governance (CG), profitability, and capitalisation of banks in Pakistan using Agency theoretical underpin. This quantitative research used secondary data from annual reports of listed banks in Pakistan from 2006- 2018. The ordinary least square (OLS) multiple regression was used. The three dimensions of the study are corporate governance (measured by board effectiveness, board size, and CEO compensation), management efficiency (measured by profitability), and bank capitalisation (measured by capital adequacy ratio). The study established that board effectiveness (measured by NPL) and Management efficiency (measured by ROA) has no significant impact on banks' capital adequacy ratio (CAR). This single economy study did not show comparative outcomes of the sampled banks, and its dependence on a single economy is


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a shortcoming. It is the desire of the study for the impacts of institutional variables to be considered in future studies. Linking this study to the proposed one, five countries would be covered with three critical institutional variables included (politics, law, and finance). The proposed study would also run the interaction effects of corporate governance and institutional variables on the capital adequacy of sampled banking sectors in the ECOWAS sub-region.

Wahua (2017) conducted an empirical cross-country comparative study on the role of corporate governance and institutional structures on banks' capital adequacy ratio (CAR) with the moderating effects of legal systems. The study covered 1998 – 2014 with aggregate secondary data from the banking sectors of five of the eight developing countries. Egypt, Malaysia, Nigeria, Pakistan, and Turkey are these five countries. This stakeholder theory used ordinary least squares and hierarchical regression models to test the hypotheses developed in the research. Corporate governance (CG) has two proxies (board effectiveness and management efficiency); the institutions covered are politics, law, and finance; leverage was the control variable; and capital adequacy ratio (CAR) was the dependent variable. Corporate governance and institutional variables were the independent variables. The critical findings of the work are: (i) corrupt political systems have adverse effects on banks' CAR; (ii) legal and financial systems have different effects on banks' CAR; (iii) board effectiveness and management efficiency have different effects on banks' CAR; (iv) strong legal systems significantly moderated the effects of corporate governance on banks' CAR; and (v) the interaction of legal systems and board effectiveness has positive effects on banks' CAR. The study recommends that there is a need to replicate the study in other economic and non-economic groups in order to validate its findings. The recommendation of this study forms the cornerstone of this study. The Anglophone countries of the Economic Community of West African States (ECOWAS) make a good case study of this three-dimensional topic (corporate governance, cross-country institutions, and banks' capitalisation). The ECOWAS group contains the country with the largest population and the biggest economy (by GDP) in Africa (Nigeria). It also contains one of the top-most African countries with democratic credentials since 1992 (Ghana). Also strategic, the study covers one (if not the only) of the African countries that were never colonised (Liberia). Therefore, the need to replicate the work of Wahua (2017) in Anglophone countries of the Economic Community of West African States (Gambia, Ghana, Liberia, Nigeria, and Sierra Leone) cannot be ignored.

Okoye, Evbuomwan, Achugamonu and Araghan (2016) investigated the impact of CG on the profitability of the Nigerian banking sector. This quantitative research made use of secondary data. The ordinary least square regression (OLS) analytical technique was used. The prime findings of the study are: (i) capital adequacy ratio (CAR) has a significant negative impact on profitability, and (ii) non-performing loan (NPL) has a significant positive effect on profitability while inflation (a control variable) has no significant effect on profitability. This study by Okoye, Evbuomwan, Achugamonu, and Araghan (2016) reverses the direction of this particular study. It measures the impact of the capital adequacy ratio on profitability and the impact of the non-performing loans on profitability. While the capital adequacy ratio served as an independent variable in this study, it would serve as a dependent variable in the proposed research. Second, while profitability served as a dependent variable in this study, it would only serve as an independent variable in the proposed study by serving as a proxy of management's overall efficiency. The authors desire that there is a need to include the impact of institutional


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variables on future studies. Institutional variables are integral to institutional theory (meant for comparative cross-country studies). The salient institutional variables for this proposed study are political, legal, and financial institutions.

Pindado, Queiroz and Torre (2015) investigated the moderating impacts of country-level corporate governance indicators (such as legal systems and financial systems) on market valuation using data from 12 countries: Austria, Belgium, France, Germany, Greece, Ireland, Italy, Spain, the Netherlands, the United States, the United Kingdom, and Japan (these are American and European countries). The study established that Legal protection and financial support have significant positive effects in moderating the relationship between corporate governance (as measured by ownership structure and independence of the board of directors) and market valuation. This study did not factor in the effectiveness of the board or the efficiency of the management team despite the fact that the board and the management are at the nucleus of firm corporate governance. Again, all the studied countries are developed economies; it did not consider emerging or undeveloped economies. There is a need to carry out a similar study using ECOWAS countries as case studies. This is because the ECOWAS sub-region is an economic block with great potential. Such a study would incorporate the salient place of the board of directors and management teams regarding effectiveness and efficiency.

Majocchi, Dalla Valle and D'Angelo (2015) investigated the influence of firm and country corporate governance factors on the performance of 403 Italian manufacturing firms. This parametric research established that countries' corporate governance factors (political stability, economic performance and financial stability) significantly affect Italian manufacturing firms' financial performance (they are particularly affected by institutional features in general and political risk in particular). The work suggests that there is a need for further research to incorporate other countries for comparability purposes since it was based on a single economy. This proposed study would cover five English-speaking countries in the West African economic block.

**Development of Hypotheses**

Institutional scholars agree that country institutions generally affect firm performance and banks' capitalisation (Osei-Attakora, 2022). The only divergent opinion is that the impact of national institutional variables on firms' operations and volume of capital is not generally positive across countries (Wahua, 2017). This is because of the quality and level of development of the different national institutions: some are well-developed and established, while others are at the developing stage. The ability of banks to raise adequate capital has been linked to strong institutional factors like political, legal and financial systems (Osei-Attakora, 2022).


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**H1: Politics, legal, and financial systems have a significant relationship with the capital adequacy of commercial banks in Anglophone ECOWAS countries**

**H1A**: The political system has a significant relationship with the capital adequacy of commercial banks in Anglophone ECOWAS countries.

**H1B**: The legal system has a significant relationship with commercial banks' capital adequacy in Anglophone ECOWAS countries.

**H1C**: The financial system has a significant relationship with commercial banks' capital adequacy in Anglophone ECOWAS countries.

Hypothesis 1 is an attempt to empirically establish the impacts of three country-wise institutional variables (politics, law, and finance) on commercial banks' capital adequacy in Anglophone ECOWAS countries. The importance of Hypothesis 1 and its subsets' importance is that banks' capital adequacy is shaped and re-shaped by political regulations, hard and soft laws, and financial markets (capital or money markets). These three variables have been tested in D-8 countries of Egypt, Indonesia, Malaysia, Nigeria, and Turkey by Wahua (2017).

Corporate governance, as measured by board effectiveness and management efficiency, has different effects on banks' capital adequacy: while board effectiveness mostly has a negative impact on banks' capital adequacy, management efficiency mostly has a positive impact on banks' capital adequacy (Bakin et al., 2015; Shaddady & Moore, 2015; Irawan & Anggono, 2015; Wahua, 2017). Banks create money by granting credit facilities. The board of directors' effectiveness curtails credit stock, reducing interest incomes and related charges of banks. Management Teams of banks are charged with the primary responsibility of profit maximisation; this is achieved by granting loans and earning interest income and related charges (Shaddady & Moore, 2015; Wahua, 2020; Workneh, 2014).

**H2: Board effectiveness and management efficiency significantly affect commercial banks' capital adequacy in Anglophone ECOWAS countries.**

**H2A**: Board effectiveness significantly affects commercial banks' capital adequacy in Anglophone ECOWAS countries.

**H2B:** Management efficiency significantly affects the capital adequacy of commercial banks in Anglophone ECOWAS countries**.**

Hypothesis 2 is an attempt to quantitatively measure the impacts of two critical corporate governance stakeholders (board of directors and management team) on commercial banks' capital adequacy in Anglophone ECOWAS countries. While the shareholders have no control over country institutional factors like politics, law and finance on their banks' capital adequacy, they do have control over their boards of directors and management teams in promoting their banks' capital adequacy.


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## METHODS

### Research Framework and Method

This work adopts the modified version of the research framework applied by Alzoubi (2019), which follows this order: research background. Literature review, research conceptualisation, research hypothesis, data collection, data analysis, and results. This is a parametric quantitative research based on a deductive research approach.

### Research Design and Model

This is a quantitative research based on descriptive research design: it is anchored on a theory; it tests hypotheses; it looks at causation concept; it is deductive in approach; it analyses data statistically (both descriptive and inferential); and it develops new knowledge through positivism approach (Osei-Attakora, 2022; USCLibraries, 2018; Wahua et al., 2023). The central model applied in the study is:

$$\mathbf{CAR = \alpha + \beta politics + \beta law + \beta finance + \beta board + \beta mgt + \beta interest + \beta year + e}$$

**Where:**

| | | |
|---|---|---|
| CAR | : | Capital adequacy ratio of countries' banking sectors |
| Politics | : | Quality of political systems of member countries |
| Law | : | Quality of legal systems of member countries |
| Finance | : | Quality of financial systems of member countries |
| Board | : | Board effectiveness of member countries' banking sectors |
| Mgt | : | Management efficiency of member countries' banking sectors |
| Interest | : | Interest rate of member countries' banking sectors |
| Year | : | Impact of yearly factor on banking sectors' capitalisation |
| α | : | Constant factor or intercept |
| β | : | Coefficients of each variable |
| e | : | Error terms |


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**Population and Sampling Procedures**

The population of this study covers all the commercial banks that operated in The Gambia (12 commercial banks), Ghana (27 commercial banks), Liberia (9 commercial banks); Nigeria (22 commercial banks); and Sierra Leone (14) within 2001 – 2021 (84 commercial banks in total). The convenience sampling technique was adopted based on the availability of complete data on all the variables. In view of this, Liberia's banking sector was excluded from the study based on incomplete data. Therefore, the sample size comprises of 89% of the total population. Wahua, Mkombo, Okai and Acquah-Yalley (2023), Tsekpo and Wahua (2023), and Wahua and Ahlijah (2020) adopted this approach.

**Data Collection Process and Analysis Technique**

Aggregate secondary data of each country on the research variables were collected from the World Bank and the International Monetary Fund websites. This enhanced the reliability and validity of the data used in the study (Wahua et al., 2018). Data were analysed descriptively and inferentially with a statistical package for social sciences (SPSS).

**Operationalization of Research Variables**

**Table 1**: *Operationalisation of Research Variables*

| Variable | Proxy and Formula | Source |
|---|---|---|
| Politics | Corruption control index | World Bank Group (2015) |
| Finance | Banks' credit to private sector/GDP | Moradi et al. (2015). |
| Mgt | Banks' Return on Assets after-tax | Bankscope (2015) |
| Board | Banks' Non-Performing Loans Index | IMF and World Bank (2015) |
| Law | Rule of Law Index of countries | Kaufmann et al. (1999 - 2015). |
| Interest | Banks' interest on deposits | Bankscope (2015) |
| Year | Dummy variable | Wahua (2015) |
| CAR | Bank regulatory capital to risk-weighted assets | IMF and World Bank (2015) |

***Compiled by the Authors***


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## RESULTS AND DISCUSSION

### Test of Normality

**Table 2: Results of Normality Tests**

| Dependent Variable | GAMBIA | | GHANA | | NIGERIA | | SIERRA LEONE | | GROUP | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Skewness | Kurtosis | Skewness | Kurtosis | Skewness | Kurtosis | Skewness | Kurtosis | Skewness | Kurtosis |
| Regulatory Capital | 0.196 | -0.862 | -0.634 | 0.994 | -1.522 | 2.917 | 1.132 | 2.578 | 0.094 | -0.472 |

**Source:** ***Authors (2023)***

The cardinal assumption for the use of parametric approach in testing research hypotheses is that the dependent variable(s) should be drawn from normal distribution. There are different ways of establishing this statistically, but the descriptive statistics approach of Skewness and Kurtosis was applied in this research. Measures of kurtosis and skew are used to determine if indicators meet normality assumptions (Wahua, 2015). Both skew and kurtosis can be analysed through descriptive statistics. Acceptable values of skewness fall between − 3 and + 3, and kurtosis is appropriate from a range of − 10 to + 10 when carrying out parametric research (Khawar, 2015). The results of Table 2 show that all the countries' figures of the dependent variable used in this study are drawn from normal distributions as their Skewness and Kurtosis statistics fall within the acceptable ranges. Therefore, using a multivariate general linear model (GLM) to test the hypotheses is appropriate (Wahua & Ezeilo, 2021).

### Descriptive Statistics

**Table 3:** *Results of Descriptive Statistics*

| Variables | GROUP | | GAMBIA | | GHANA | | NIGERIA | | SIERRA LEONE | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Dev. | Mean | Std. Dev. | Mean | Std. Dev. | Mean | Std. Dev. | Mean | Std. Dev. |
| Corruption Control | 29.9599 | 16.61736 | 32.9371 | 7.60524 | 52.9901 | 4.24396 | 11.1628 | 4.32336 | 22.7497 | 7.70186 |
| Rule of Law | 31.2047 | 17.59759 | 37.9483 | 7.37786 | 55.4152 | 2.99761 | 13.2627 | 4.33082 | 18.1926 | 4.84475 |
| Finance (PCM) | 9.7782 | 3.99208 | 8.4732 | 1.7532 | 13.7223 | 1.67973 | 11.8996 | 3.19791 | 5.0175 | 1.83854 |
| Board (NPL) | 14.7634 | 7.32058 | 10.7678 | 3.88332 | 14.8626 | 4.42849 | 12.9723 | 8.90156 | 20.451 | 7.39273 |
| Mgt (ROA) | 3.2097 | 1.84552 | 3.7144 | 1.80259 | 3.6818 | 1.39376 | 1.8236 | 1.02371 | 3.6188 | 2.28478 |
| Regulatory Capital | 22.9649 | 8.3182 | 26.9845 | 5.3096 | 16.8191 | 2.92921 | 15.5388 | 5.07026 | 32.517 | 3.7888 |
| Deposit Interest Rate | 11.2841 | 4.06332 | 13.4681 | 3.58746 | 13.1961 | 4.72506 | 10.1293 | 3.17001 | 8.5611 | 2.33356 |

**Source:** ***Author (2023)***

Table 3 contains the results of the descriptive statistics carried out on all four banking sectors that made the study and the Group. The Group is the aggregate data of the four banking sectors that form this study. The major statistics that underpinned the descriptive results are mean and standard deviation. Therefore, the risk-returns metrics form the cardinal basis for discussing the descriptive results. The critical areas of focus are mean (benefit) and standard deviation


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(risk). If the standard deviation is greater than the mean, it implies high risk (risk is higher than benefit), and when the mean is greater than the standard deviation, it implies lower risk (benefit is higher than risk). This position is supported by Emile Woolf and the International Institute of Chartered Accountants of Nigeria (2021). The results of Table 3 indicate that across the four countries and the Group, the mean figures are greater than the standard deviation figures on all the variables. This statistically implies that the benefits exceed the risk inherent in all the studied units' variables. The atmosphere in the countries and the Anglophone Group within the ECOWAS sub-region is favourable for banking operations in general. Conversely, the results of Table 3 portray some negatives:

The control of corruption in Anglophone countries averages at circa 30%, and that of the individual countries are Gambia (33%), Ghana (53%), Nigeria (11%), and Sierra Leone (23%). These statistics indicate that only Ghana reached an average threshold in controlling corruption while Nigeria is the least. Corruption is a big issue in the Group; hence, the political climate in the Group is corrupt, crude, and anti-development. The political theory holds that capital flight sets in corrupt countries with flawed political systems breed anarchy, chaos, wars, and civil disturbances/unrest. Nigeria is the most affected country in terms of bad political system, which is induced by a high rate of corruption. The country is facing multiple challenges: terrorism, separatism, religious fanatics, internet fraud, kidnapping, banditry, and other unwholesome sectional/national problems due to broken and gutter political culture. Apart from Ghana, which has enjoyed a relative political climate since the inception of its 4th Republic in 1992 (the last general elections witnessed heightened tension and violence across the country), Gambia and Sierra Leone are following Nigeria in weakening the political fabrics of the Group. Statistically, the need for all the Anglophone countries in ECOWAS to increase their corruption control mechanisms cannot be overemphasised. Governments, religious bodies, non-governmental organisations, and other highly spirited persons as well as international organisations, should continue championing for a high degree of transparency in the financials and politics of these countries (even Ghana has room for improvement).

The political climate most often goes in the same direction as the legal climate. This is because a corrupt political system weakens national institutions and the law. Parliamentarians are bribed to influence the enactment of laws; Judges are bribed to influence the outcomes of judgments; electorates are bribed to elect political office holders; and the gulf between the rich and the poor keeps widening in every electoral cycle. The social contract between politicians and electorates keeps being violated by elected officials with reckless abandon as politicians become mostly interested in recovering the money spent to get into office (with a big margin of profits).

Once again, Table 3 shows that the quality of the rule of law in the Group averages 31%, in Gambia at 38%, in Ghana at 55%, in Nigeria at 13%, and in Sierra Leone at 18%. Regions and regions with weak legal systems cannot protect investors’ rights and property; hence, capital flies to safer legal jurisdictions. Once again, Ghana tops the list regarding the quality of the rule of law. It is, therefore, not surprising that the country is gradually but speedily becoming investors’ country of first choice within the Group and the whole ECOWAS sub-region. Its peaceful nature over the years is statistically linked to its stable political system rooted in a high degree of corruption control and a high degree of compliance with the rule of law.


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Therefore, empirical evidence supports the need for Anglophone-ECOWAS Group countries to continue improving their rule of law mandate.

The monetary sector's credit to the private sector as a percentage of gross domestic product (PCM) is a strong financial indicator to assess the banking sector's confidence in its capacity to repay its debt as at when due. It is also a measure of assessing the capacity of the private sector to raise capital for entrepreneurial ventures, employment creation, and national productivity. Again, the ECOWAS Anglophone Group witnessed about 10% of the banking sector's credit to the private sector in relation to the national GDP; and that of the sampled countries are 8% for the Gambia, 14% for Ghana, 12% for Nigeria, and 5% for Sierra Leone. Once again, Ghana topped the list. This signifies that banks are prone to granting credits to private sectors in countries with stable political systems (with lesser violence) and strong rule of law mechanisms. There is a great need, therefore, for ECOWAS Anglophone countries to build strong and resilient political and legal institutions in order to pull their financial institutions out of the woods. The present situation whereby banks cannot grant reasonable credits to private investors would not only weaken the countries economically and further push them into wars and social disturbances.

A strong private sector is the engine room and catalyst for national development, sectional integration into the national hub, and economic empowerment of the people through gainful employment. A weak private sector, as we have in Nigeria, Gambia, Ghana, and Sierra Leone, is a prelude to the disaster the ECOWAS Anglophone Group is currently facing (and the coverage and intensity of what would happen in the near future is yet to be understood by many). It is therefore not surprising that inter-regional trade within the ECOWAS, in general, and within the ECOWAS-Anglophone Group, in particular, is fraught with a high degree of manipulations, scheming, mistrust, charges/tariffs, and other unwholesome practices and policies. Strong private sectors would energise these countries, promote the ECOWAS Anglophone Group better, reduce tension, and strive for do-and-die political culture and other social/economic vices.

Non-performing loan in within the ECOWAS Anglophone Group averages at double digits (15%), and at the studies countries at varying rates: Gambia is 11%; Ghana is 15%; Nigeria is 13%; and Sierra Leone is 20%. While Gambia had the lowest non-performing loans, Sierra Leon had the highest. One grave observation is that all the countries had double-digit non-performing loan metrics. The overall responsibility of the board of a corporation is to secure and protect its assets and liabilities, and this is more pronounced in the banking sector where their assets amount to circa 90 - 95% of total loans granted while their total liabilities also amount to about 90 – 95% of customers' deposits. Non-performing loans pose a great sustainability threat to banking institutions; as such, it rests on the Boards of banks to jealously guard against incidences of non-performing loans.

Non-performing loans of ECOWAS Anglophone Group range from 11% - 20% and net an average of 15%. These are all in double digits, which is bad considering that the return on assets (net) is in single digits for the Group and all the studied countries. It rests on the Boards of banks in the ECOWAS-Anglophone Group to adopt empirical means of reducing their non-performing loans (or portfolio-at-risk) to single digits, not above 7%. This would strengthen the banks, lead to an expansionist agenda, enlarge the economy, and create employment. The


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recapitalisation exercises already completed in Nigeria and Ghana would increase operational capability for the sub-regional Group of 5 if non-performing loans reduce to a single digit of about 7% maximum (thereby cutting the cutting average by half, 50%).

The overall measure of the efficiency of management and the performance of firms is profit maximisation (Wahua, 2017). Increased profit benefits the economy: workers by way of increased salaries and benefits; governments by way of increased corporate incomes; shareholders by way of increased dividends and capital gains; customers by way of increased interest in deposits; borrowers by way of decreased lending cost; and the firms by way of increased retained earnings for growth and replacement of assets.

The return of assets of the ECOWAS Anglophone Group stood at 3% within the period under study, and that of the individual countries are Gambia at 4%, Ghana at 4%, Nigeria at 2%, and Sierra Leone at 4%. Nigeria weakened the Group's net returns on assets (this is because the other countries averaged at 4% each). Banks in Nigeria need to improve their efficiency based on their size and global outreach. Wastages and corruption should be drastically controlled by corporations (not just by the government and its agencies).

Regulatory capital to risk-weighted assets is the dependent variable in this study, and the prime aim of the research is to empirically determine how best to increase its West African Anglophone banking sectors. Risk-weighted assets are the net risk after netting off risks (operational and non-operational). The regulatory capital to risk weighted assets of the ECOWAS Anglophone Group averaged at 23%, while those of the individual banking sectors stood at 27% (Gambia), 17% (Ghana), 16% (Nigeria), and 33% (Sierra Leone). These figures indicate that Sierra Leonean banks outperformed other sampled banking sectors on this indicator. It is followed by the Gambian banking sector. Ghanaian and Nigerian banking sectors are almost at par on this indicator, this is worrisome after considering the quantum of the banking sector's recapitalisation exercises carried out by the two countries in recent times. One possible explanation for this underperforming regulatory capital to risk-weighted assets in Ghana and Nigeria is excessive operational and country-wise risks. The onus is therefore on the Boards of banks in Ghana and Nigeria (in collaboration with their management teams) to empirically work out an optimum overall operating model that would reduce risk, improve regulatory capital, and enhance the overall ranking of their banks.

The banking sector is extremely competitive, which has become a major issue as foreign banks somewhat dominate other countries' banking landscapes. The ECOWAS region is seen as an untapped haven by foreign banks, which are better capitalised, better equipped with robust business intelligence architecture, and better premised to deliver quality service with a well-trained and experienced workforce backed up with strong corporate governance best practices from home countries. As banks scramble for the few available deposits, interest on deposits soars to catch huge deposits. Subsequently, banks transfer the interest on deposit expenses to prospective lenders as interest on loans. The net-off between interest on loans and interest on deposits results in prime loan margin (a strong element of profitability by deposit-taking banks). Table 3 reveals that the deposit interest rate for the ECOWAS Anglophone Group averaged at 11% within the period covered in this study, and those of the individual countries netted off at 13% (Gambia and Ghana), 10% for Nigeria and 9% for Sierra Leone. It is only in Sierra Leon that it is at a single digit. These figures are important because deposits are more


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expensive in Gambia and Ghana than in Nigeria and Sierra Leone. Lower deposit interest rate drives down lending rate, too (all things being equal). Therefore, a single-digit deposit interest rate is necessary to drive down the lending rate to single digits.

## Test of Hypotheses

The critical value of this research is 0.05, and only independent variables with probability values equal to or less than 0.05 have significant effects on capital adequacy (the dependent variable). For the purpose of this study, the independent variable includes control variables.

**Table 4:** *Parameter Estimates: Hypothesis 1 and 2*

| Indicator | Group | | Gambia | | Ghana | | Nigeria | | Sierra Leon | |
|---|---|---|---|---|---|---|---|---|---|---|
| | P.Eta$^2$ | Sig. | P.Eta$^2$ | Sig. | P.Eta$^2$ | Sig. | P.Eta$^2$ | Sig. | P.Eta$^2$ | Sig. |
| Corruption Control Index | 0.131 | **0.002** | 0.098 | 0.322 | 0.244 | 0.073 | 0.103 | 0.263 | 0.511 | 0.004 |
| Rule of Law Index | -0.056 | **0.046** | -0.172 | 0.18 | -0.1 | 0.27 | -0.026 | 0.585 | 0.177 | 0.135 |
| Credit to Private Sector | -0.571 | **0.001** | 0.084 | 0.36 | 0.005 | 0.808 | -0.023 | 0.607 | -0.017 | 0.656 |
| Non-Performing Loan | -0.071 | **0.024** | 0.004 | 0.839 | 0.025 | 0.592 | -0.787 | 0.001 | -0.122 | 0.221 |
| Profitability (ROA) | -0.054 | **0.049** | 0.434 | 0.02 | 0.124 | 0.216 | -0.315 | 0.037 | -0.538 | 0.003 |
| Deposit Interest Rate | -0.001 | 0.866 | -0.003 | 0.868 | 0.041 | 0.488 | 0.345 | 0.027 | -0.674 | 0.001 |
| Yearly trend of Events | 0.011 | 0.378 | 0.53 | 0.007 | 0.63 | 0.001 | -0.219 | 0.092 | -0.525 | 0.003 |
| **F. Statistic** | 19.305 (**0.001**) | | 7.171 (**0.003**) | | 4.637 (**0.010**) | | 7.910 (**0.001**) | | 10.118 (**0.001**) | |
| **R. Squared** | 0.659 | | 0.834 | | 0.73 | | 0.822 | | 0.855 | |
| **Adjusted R. Squared** | 0.625 | | 0.718 | | 0.573 | | 0.718 | | 0.771 | |

**Source:** ***Authors (2023)***

Table 4 contains the results of the tests of Hypothesis 1 and 2 using two proxies of capital adequacy of banking sectors in ECOWAS Anglophone Group, Gambia, Ghana, Nigeria and Sierra Leone. In line with the findings contained in Table 4, and with reference to the Group's statistical results, it is apt to conclude thus:

i. Politics (as measured by corruption control) had a significant positive relationship with the capital adequacy of commercial banks that operated in Anglophone ECOWAS countries from 2001 to 2020 (the relationship is positive across all the sampled countries and the Group, even though their degree of positive relationship varies from country to country). This is one of the hallmarks of this study.

ii. The legal system (as measured by the Rule of Law) had a significant negative relationship with the capital adequacy of commercial banks that operated in Anglophone ECOWAS countries from 2001 to 2020 (this varies from country to country).

iii. The financial system (as measured by the banking sector's credit to the private sector) had a significant negative relationship with the capital adequacy of commercial banks that operated in Anglophone ECOWAS countries from 2001 to 2020 (this varies from country to country).

iv. Board effectiveness (as measured by non-performing loans) had a significant negative relationship with the capital adequacy of commercial banks that operated in Anglophone ECOWAS countries from 2001 to 2020 (this varies from country to country).


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v. Management efficiency in profit maximisation (as measured by net returns on assets) had a significant negative relationship with the capital adequacy of commercial banks that operated in Anglophone ECOWAS countries from 2001 to 2020 (this varies from country to country).

Therefore, Hypotheses One (politics, legal, and financial systems have a significant relationship with capital adequacy of commercial banks in Anglophone ECOWAS countries) and Hypothesis 2 (board effectiveness and management efficiency have significant effects on capital adequacy of commercial banks in Anglophone ECOWAS countries) are hereby accepted.

## DISCUSSION OF THE MAJOR FINDINGS

This comparative parametric study has a lot of mixed findings. It established that corporate governance (as measured by board effectiveness and management efficiency) significantly affected banks' capital adequacy in the Anglophone Economic Community of West African Banks from 2001 to 2020. This significance is negative at the aggregate/group level and in commercial banks operating in Gambia, Nigeria, and Sierra Leone. Significance was not established in Ghana. The statistical meaning of this finding is that an improvement in corporate governance mechanism in these countries and the Group will decrease commercial banks' capital adequacy, and a deterioration in corporate governance quality in these countries and the Group will increase commercial banks' capital adequacy. Corporate governance decreases in corrupt political environments with weak institutions. Therefore, the practical implication is that the situation that existed in Gambia, Nigeria, Senegal and the whole of the Anglophone ECOWAS Group between 2001 - 2020 favoured the promotion of corrupt tendencies if commercial banks were to increase their capital adequacy base. This is not a good operating model, as the study expected that increased corporate governance quality would increase banks' capital adequacy and vice versa. Ordinarily, investors are to invest more in purchasing capital from commercial banks when the governance practices are strong.

Okoye, Evbuomwan, Achugamonu and Araghan (2016) investigated the impact of corporate governance on the performance of the Nigerian banking sector and established that capital adequacy ratio (CAR) has a significant negative relationship with management efficiency (as measured by profitability). This conversely implies that management efficiency has a significant negative effect on commercial banks' capital adequacy. This finding strongly agrees with the results of this study. Okoye et al. (2016) studied Nigeria's commercial banks just as this study did. Therefore, the take from these two studies is that corporate governance weakens banks' ability to raise adequate capital in weak and corrupt political systems.

A study by Kakar, Ali, Bilal, Tahira, Tahir, Bahadar, Bukhari, Ullah and Aziz (2021) did not agree with the result of this research as they established that corporate governance has a significant positive effect on the capital adequacy of Pakistani banks using data from 2010 to 2015. This implies that improved corporate governance effectiveness significantly increases commercial banks' capital adequacy while laxity in corporate governance decreases banks' capital adequacy. This study calls for improved corporate governance architecture to reduce


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banks' non-performing loans of banks and increase their capital adequacy. Technically, when banks’ loans are performing, they earn higher interest incomes, which increases their capital base via increased retained earnings.

Again, Agustina, Winarno and Dyan (2021) and Jamil and Qureshi (2020) did not back the finding that corporate governance significantly negatively affects commercial banks’ capital adequacy. Specifically, Agustina, Winarno and Dyan (2021) studied the impact of corporate governance (CG) on capital adequacy ratio (CAR) of banks in Indonesia using 2015 – 2019 data and established that corporate governance (as measured by board effectiveness and management efficiency have no significant impact on capital adequacy of banks that operated in Indonesia. Another study that did not agree with the finding that corporate governance has a significant negative effect on capital adequacy is Jamil and Qureshi (2020). It investigated the relationship between corporate governance (CG) and the capitalisation of banks in Pakistan between 2006 – 2018. It established that board effectiveness (measured by NPL) and Management efficiency (measured by ROA) have no significant impact on banks’ capital adequacy ratio (CAR) in Pakistan. This single economy study did not show comparative outcomes of the sampled banks, and its dependence on a single economy is a shortcoming.Wahua (2017) conducted an empirical cross-country comparative study on the role of corporate governance and institutional structures on banks’ capital adequacy ratio (CAR) with the moderating effects of legal systems. The study covered 1998 – 2014 with aggregate secondary data from the banking sectors of five countries of the eight developing countries: Egypt, Malaysia, Nigeria, Pakistan, and Turkey. This stakeholder theory-based study established that board effectiveness and management efficiency affect banks’ capital adequacy differently. This is contrary to the findings of this study, where both board effectiveness and management efficiency have significant negative effects on three of the individual countries and the Group. Therefore, the salient take from this study is that corporate governance is very weak in environments where national institutions (political, legal, and financial) are very weak. This weakness in national institutions and corporate governance leads to poor firm performance and inadequate capital adequacy in banks.

This discussion is incomplete without mentioning the place of national or country institutional factors in banks’ ability to raise adequate capital. First, it should be understood that corporate governance is a nexus of firm-country variables (mostly captured along management-board dimensions and politics-law-finance dimension). Scholarly works on this firm-country corporate governance nexus include Wahua (2017), Pindado, Queiroz and Torre (2015), Majocchi, Dalla Valle and D'Angelo (2015), Fleckner and Hopt (2013), Carniglia (2013), Fanta, Kemal and Waka (2013), Claessens and Yurtoglu (2012), Sarode (2011), and Ioannou and Serafeim (2010). Central to this discussion is the impact of national institutions on banks’ capital adequacy. This study established that the political system (politics) significantly positively affected Anglophone ECOWAS countries’ capital adequacy from 2001 to 2020. This is also traced to commercial banks that operated in Sierra Leone within the same period under review. Contrary to this finding, Wahua (2017) established that corrupt political systems have negative effects on banks’ capital adequacy (this is contrary to the finding of this work which established that political system has a significant positive effect on the capital adequacy of commercial banks that operated in Anglophone ECOWAS countriesthe from 2001 to 2020). The place of corruption in destabilising and weakening political systems has become a topical


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issue in recent times, and political economists, as well as corporate governance scholars, are in unison in asserting that corruption weakens political systems and that weak political systems affect corporate governance and firm performance negatively (Wahua, 2017). Majocchi, Dalla Valle and D'Angelo (2015) agreed that politics/political system has a significant effect on capital adequacy and performance of firms (but the study did not establish if the significance is positive or negative). The study of Italian manufacturing firms' performance is particularly affected by countries' corporate governance factors (political instability, political risk, and weak institutional factors like legal and financial systems).

Contrary to the established positive effect of politics on banks' capital adequacy in English-speaking ECOWAS countries, this study also established that both legal and financial systems had significant aggregate negative effects on the capital adequacy of commercial banks that operated in Anglophone ECOWAS Group within the same period under study. This is despite the fact these two country-institutional variables did not directly affect any of the countries considered in this study. This finding does not support Wahua (2017), which established that legal and financial systems affect banks' capital adequacy differently in selected D-8 countries: Egypt, Malaysia, Nigeria, Pakistan, and Turkey. The legal and financial institutions in English-speaking ECOWAS countries are far from adequate, and this has both direct and indirect corporate governance architecture within the countries: Gambia, Ghana, Nigeria and Sierra Leone. This study directly responds to Fleckner and Hopt (2013), who explored corporate governance's economic (finance inclusive), political, and legal determinants of corporate governance in twenty-three countries. Whilst Fleckner and Hopt (2013) only called for an investigation into comparative corporate governance studies in smaller countries of the world, this study has established that whilst politics has a significant positive effect on aggregate capital adequacy, legal and financial systems have aggregate significant negative effects on capital adequacy of selected Anglophone ECOWAS countries within 2001 to 2020. The study by Fanta, Kemal, and Waka (2013) established that weak national institutions, the absence of sound financial markets, and weak legal fabrics weaken national corporate governance, negatively affecting banks' performance in Ethiopia. These agree with the position of this work that financial and legal institutions have significant negative effects on banks' capital adequacy in English-speaking ECOWAS countries. Claessens and Yurtoglu (2012) believe that better-governed corporate frameworks benefit firms, sectors and countries through greater access to financing (capital adequacy), lower cost of capital, better firm performance, and more favourable treatment of all stakeholders. Linking this finding to the current work, it could be deduced that the legal and financial systems present in English-speaking ECOWAS countries are not good enough; hence, they significantly negatively affect the capital adequacy of the sub-economic group under study.

## ORIGINALITY OF THE WORK

One thing clearly depicted in this study is the need for banks operating within the English-speaking West African sub-region (ECOWAS) to work in synergy and operate a common model. The era of individualistic banking and economic policies seems far from the present reality. The results of hypotheses 1 and 2 and their sub-hypotheses reveal that politics, law,


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finance, board effectiveness, and management efficiency significantly affect the capital adequacy of banks that operated in the Anglophone ECOWAS Group from 2001 to 2020.

## CONCLUSION

### Implications of the Major Findings

### Theoretical Implications

The relevance of the institutional-stakeholder theoretical underpin remains in this study. All the institutional variables significantly affect the capital adequacy of the Anglophone commercial banking Group. Strong institutions matter in the banking sector's control, regulation, and supervision. A healthy political institution withstands legal and financial tensions, protects investment assets, and secures the lives and property of locals and foreigners (Osei-Attakora, 2022).

Board effectiveness and management efficiency also significantly affected banks' capital adequacy. Boards of directors and management teams monitor and galvanise the interests of multiple stakeholders. Since all the institutional and stakeholder variables significantly affect the capital adequacy of banks that operated in the Anglophone ECOWAS Group, the theory is a good fit for the study.

### Policy Implication

The governments and shareholders of banks in the studied countries need to take strategic policy measures based on the results of this study. If corruption control significantly increases banks' capital adequacy significantly, what measures should be implemented by the government and other relevant stakeholders implement to promote the war against corruption? What laws can these stakeholders moot to be enacted or amended in order to strengthen the anti-corruption crusade sweeping across the studied countries and beyond? What internal anti-corruption measures and policies would the leadership and owners of banks initiate in order to be strong voices in the fight against corruption? Would gratification of lawmakers by banks' chief executives continue to be business as usual? Would prospective banks continue to bribe the regulatory authority to get operating licenses? Would managers of banks continue to use ladies as professional prostitutes to secure huge deposits from government officials and big guys of the corporate (business) world? Policies to tame corruption and unethical banking practices must emanate from the results of this work.

### Operational Implications

Banks must operate by the rules, and scapegoats must be punished. The law negatively affects the capital adequacy of studied banks at the aggregate level because its undercurrent affects capital flow beyond a political boundary, as banks are the nexus of cross-boundary institutions and rules. A banking sector that does not abide by the rules and regulations laid down is doomed. The need to strengthen the legal institutions, financial institutions, and banking internal governance architectures cannot be left in the hands of visionless politicians and self-


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centred corporate leaders. The time is ripe for banks to know what to do, how best to do them, the right time to do them, and for the right reasons.

## SUMMARY

The commencement of the African Continental Free Trade Area (AfCFTA) has re-echoed the need for more in-depth empirical investigations on the nexus between governance dynamics and capitalisation of banking sectors in Anglophone West African countries. The Economic Community of West African States (ECOWAS) is a major player in African continental trade in terms of large markets, abundant natural resources, and relative peace and stability. Banking sector crises and failures have been linked to undercapitalisation and weak/poor corporate governance structures and implementations. Institutional-stakeholder theory underpinned this quantitative-parametric study, which used secondary data from Gambia, Ghana, Nigeria, and Sierra Leone from 2001 to 2020. Liberia was excluded from the study due to incomplete data. Governance is the independent variable with two facets: internal dynamics (board effectiveness and management efficiency) and external dynamics (quality of political and financial systems). Rule of law quality is the moderating variable, while deposit interest rate and passage of time are the control variables. Capitalisation of banking sectors is the dependent variable. Descriptively, the studied banking sectors have weak but positive operating outlooks, with Ghana outperforming others (followed by Gambia, Sierra Leone and Nigeria). The work re-established that no single governance model is a 'fit-for-all' as the country-wise findings differ. Results of the multivariate general linear model show that the political system has a significant positive effect on the aggregate capitalisation of studied banking sectors; board effectiveness, management efficiency, and financial system have significant negative effects on the aggregate capitalisation of sampled banking sectors. The study established the relevance of institutional-stakeholder theory and the importance of controlling corruption. The need for synergy among the studied banking sectors that were studied cannot be ignored, as further studies could cover other economies and economic groups.

## RECOMMENDATIONS

The empirical findings form the cornerstone of the recommendations being put forward here. The essence of the recommendations is to guide banks and government and policy makers in the banking industry to make informed data-driven decisions on how best to move the sector forward.

i. There is an urgent need for governments and development partners in the countries studied to work in energy on improving the quality of legal systems in the countries: Gambia, Ghana, Nigeria and Sierra Leone. The present state of legal systems in the countries is bad and counter-productive to firms' development in general and banking sectors in particular.

ii. Financial institutions' credit to the private sector in relation to gross domestic product (GDP) is very small. There is a need for the governments of studied countries to inject soft


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grants and loans into their commercial banks for the prime purpose of pulling many poor people out of poverty.

iii. It is imperative for all the countries studied in this research to increase their corruption control drive. This is a good thing for them to do as corruption kills political systems, leads to wars and anarchy, and leads to capital flight to safer economies. A corruption-controlled economy is also a politically stable country. Internal control best practices should be institutionalised, and defaulters punished accordingly to enhance corruption control. This war against corruption should continue; it should not be stepped down; it should not be discretionary; it should not be politically motivated; it should be fought within the ambit of the rule of law and due process.

iv. With non-performing loans in double digits, there is a need for the boards of directors of the sampled commercial banks to up their game in protecting shareholders' assets and liabilities. There is a need to guard and protect all loans granted by banks, not to expose depositors to harm occasioned by bank runs and liquidation. The boards of the various banks should step up progressive anti-bad loan strategies to strengthen their banks. This is more important in order to save the banks.

v. Bank Managers should also work hard to reduce costs and increase revenue. As measured by return on assets net tax, the current profitability performance needs to be increased by cutting down wastages and corruption-induced expenses.

## LIMITATIONS AND FURTHER STUDY

The major limitation of this study is that banks in Liberia (a member Anglophone country in ECOWAS) did not make this study due to a lack of complete data on the critical variables used in the study. Another salient limitation is that the study's empirical findings were not complemented with a qualitative finding via interview/focus group of corporate governance experts from various backgrounds: politics, law, finance/banking, and corporate boards/management. There is a need for further investigations into the impacts of politics, law, and finance using other quantitative indicators. Such study co-government mixed research paradigm (a blend of quantitative and qualitative research methods). The qualitative dimension should focus on interviews/focus group discussions. The understudy of other countries' banking sectors or aggregate economic groups would also suffice.

## RESEARCH ETHICS AND CONFLICT OF INTEREST

This article did not compromise any known research ethics, and it is free of any conflict of interest as it complied with high-level ethical standards in research.


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