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CORPORATE GOVENANCE AND RELATED PARTY TRANSACTIONS AMONG BANKS IN GHANA

Frank Antwi

PhD Candidate, School of Finance and Economics, Jiangsu University, China

Yusheng KONG

Professor, School of Finance and Economics, Jiangsu University, China

ABSTRACT

Governance practices in the banking and financial industry cannot be overemphasised. The reasons being that, accounting and corporate governance related scandals and collapse of several banks in recent times have raised considerable concern among regulators and academicians about related party transaction and the recent re-capitalisation by the Bank of Ghana and issues surrounding dealings with related parties were central in every discussion. This study therefore examines whether there is a relationship between corporate governance and related party transactions. Specifically, the study sought to examine the effect that board size, board independence and size of board's audit committee have on the firms' related party transactions. This study uses a sample of publicly listed banking firms on Ghana Stock Exchange for the periods ending 2013 and 2017. In all, 7 out of the 9 listed banks, representing 77.78% were used for this study and data gathered from their annual reports was used. After carrying out some diagnostic and specification tests to address the basic assumptions of the Classical Linear Regression Model (CLRM), regression was carried out using Statistical software package, STATA version 15.

The study revealed that board size has a significantly negative effect on the firms' related party transactions. This research provides evidence that the size of the board can reduce the total amount of related party transaction. On the other hand, the study uncovered that board independence and the size of audit committee have positive and insignificant relationship with related party transactions and the inference here is that banks can have non-executive independent board members and audit committee members but if they are not strict and professional, there won't be able to reduce related party transactions of which they themselves are beneficiaries sometimes. It was also revealed that, there is a significantly positive relationship between foreign ownership and related party transactions. An indication that most of the foreign-owned banks in Ghana engage in more related party transactions. However, the study revealed that the size of the firm has no influence on the total amount of related party transactions.

Keywords: Board of Directors, Corporate Governance, Foreign Ownership, Related Party Transaction.

INTRODUCTION

Nowadays, corporate governance has become an important issue in business environment. When large corporations are controlled by a small number of people, the issue of corporate governance becomes important because corporations can easily be manipulated to their benefit at the expense of the public interest. Therefore, the risk that these dealings may damage stakeholders gives rise to a demand to monitor such transactions. Recently, the entrenched business malpractice of collapsed commercial banks in Ghana by giving out loans and other favours to close and related parties have raised concerns over the corporate governance system among firms in Ghana especially those in the banking industry. However, many previous literatures argue that related party transactions between group firms can reduce transaction costs and enhance the enforcement of property rights and contract (Fisman & Khanna 1998; Shin & Park, 1999). On the other hand, controlling shareholders can take advantage of these related party transactions for opportunistic purposes. Johnson et al. (2000) also show that firms in developed markets use related party transaction to transfer assets and profits out of firms for the benefit of those who control them. Khanna & Yafeh (2000) find that group controlling firms can manipulate profits by adjusting either the volume or price of intra-group trade. The association between corporate governance and related party transactions is an important topic in accounting and fair trading research.

However, there is conflicting results from the outcome of various empirical studies when it comes to corporate governance and related party transactions. Also, existing studies on the impact of corporate governance on related party transactions (RPTs) in recent times were largely carried out in other countries in Europe, Asia and the USs etc. Ghana's banking sector is chosen because banks the recent bank failures exposed most of the customers to high risk if not the timely intervention of the government through the central bank. This notwithstanding, little has been done in terms of research concerning this sensitive aspect of business engagements in the country. The aim of this study therefore is to investigate whether there is an association between related party transaction and corporate governance; particularly the characteristics of board of directors. The rest of this paper is organized as follows: authors describe literature regarding related party transactions; corporate governance and develop the hypotheses; research design and sample selection; gathering and finally the results and conclusion.

LITERATURE REVIEW

This section of the study reviews literature that are closely related to the topic understudy. Theoretically, reviews on related party transaction and corporate governance was done and empirical reviews on the relationship between related party transactions and corporate governance of firms are outlined and hypothesis development captured.

Related Party Transactions (RPT)

Related party transactions are defined as transactions between a company and its subsidiaries, affiliates, principal owners, officers or their families, directors or their families or entities owned or controlled by its officers or their families (Statement of Financial Accounting Standards No 57, FASB 1982). There are two opposing views as to the effect of related party transactions on firm performance, namely, the conflict of interest view and efficient transaction view. That is, RPT could either be detrimental to shareholders or it could be beneficial by representing a strategic economic decision by the company and therefore increases shareholders value (Gordon et al 2004). The first perspective sees RPT as a conflict of interest between the principal and agent as embedded in the agency theory leading to exploitation of firm's resources. This is known as tunnelling and it is seen as hazardous to the interest of shareholders. The second view, on the other hand, acknowledges it as managers' real sincere attempts and sees these transactions as sound business dealings fulfilling the economic needs of the company. This is known as 'propping or efficient transaction hypothesis.

According to Ge et al. (2010) related party transaction can optimize internal resource allocation, improve return on assets and reduce transaction costs for firms. Shan (2009) argued that appropriate related party disclosure helps to protect minority shareholders' rights. Peng et al (2011) observed that market reacts positively to the announcement of transactions when there is a transaction between the firm and controlling shareholders for firms in financial distress while Friedman et al (2003) showed that investors support the firm when there is a moderate adverse shock to ensure survival. Buysschaert, (2004) discovered that intergroup equity transactions create value for non-controlling shareholders. RPT provide a platform for transfer of resources between different stakeholders resulting in gains shareholders in some cases (Agnes et al. 2010). There are a number of other previous studies that argue that related party transactions among group members can help reduce transaction costs and enhance the enforcement or property rights and contracts (Fisman & khanna, 1998; Fan & Goyal, 2002) and these support the efficient transaction hypothesis.

On the other hand, other researchers like Jian and Wong (2004), posit that profits and cash can be diverted away from firms in a group either to directly into controlling shareholders' pockets or to assist troubled group firm(s) through related party dealings. Again, Kohlbeck & Mayhew (2010) find that firms that have related party transactions have significantly lower valuation and subsequent returns are marginally lower than firms with no such transactions. Aharony et al. (2000) show that related party transactions especially sales could be opportunistically used to manage earnings upwards in the pre-IPO period. Khanna & Yafeh (2000) find that firms under one group can manipulate profits by adjusting either the price or volume of intra-group trade. Other also suggest that controlling shareholders can take advantage of these related party transactions for opportunistic purpose supporting the conflict of interest view.

Corporate Governance

Corporate governance mechanisms can assist in controlling agency costs either by aligning manager's interest with those of outside shareholders or by monitoring the managers to pprevent them from engaging in opportunistic actions (Charreaux, 1997). Prior researches suggest that good corporate governance serves as an effective mechanism to alleviate the opportunistic behaviors of management, to improve the accounting information quality, and to enhance the firm value (Chen et al., 2009; Bhagat & Bolton, 2008; Denis & McConnell, 2003). Good governance mechanism in terms of the board of directors should enhance the fairness among the different stakeholders on the business (Jensen, 2005; Matten & Crane, 2005). Furthermore, independent directors should ensure that financial decisions are made in the best interests of all shareholders and should not result in earnings or cash flows that are biased toward the managers, controlling shareholders, or the minority shareholders (Donaldson and Preston, 1995). The characteristics of board of directors by way of corporate governance cannot be overlooked and this study pays attention to the size of the board, independence, and size of the audit committee.

Hypothesis Development

Kim & Woo (2008) provide evidences that the related party transactions are used as a way of earnings management and investors estimates the transactions negatively. In some cases, related party transactions are allegedly used for window-dressed earnings. However, firms that engage in related party transaction can attempt to signal to investors the benefits of such transactions by adopting monitoring mechanisms designed to prevent wealth extraction and/or financial misreporting by assigning independent directors to review RTP (Kohlbeck & Mayhew, 2010).

There are conflicting results as per existing related when it comes to board characteristics and related party transactions. For example, it has been found that board size has a significant influence on the amount of related party transactions and they are positively correlated (Gordon et al 2004b; Kohlbeck and Mayhew, 2004). On the other hand, others found an insignificant relationship between board size and related party transaction and the relationship is deemed negative. For example, Sharkar et al. (2007), found that there is a negative relationship between board size and related party transactions in the Bangladesh banking sector and the significance level was weak. Also, Jeon (2019) found an insignificant and a negative relationship between board size and related party transactions.

Gallery, Gallery and Supranowicz (2008) revealed a negative relationship between board independence and related party payment, emphasising on the monitoring role of independent directors in checking payments to related parties. Again, a negatively significant relationship between board independence and related party transactions is supported by the findings of (Gordon et al 2004b; Kohlbeck and Mayhew 2004; Azim et al, 2018; Gallery, Gallery and Supranowicz;2008).

In terms of the size of the audit committee, Mangena and Pike (2005) and Akhtarudin et al. (2009) indicated that the size of the audit committee does not play any significant role when it comes to intellectual capital disclosures. This then means that the size of the audit committee may not necessary ensure a reduced-related party transaction and its full disclosure in the financial statements. On the other hand, Ho and Wong (2001) posit that; the presence of effective audit committee serves as the best mechanism to improve internal control and the inference here is that related party transactions can be put to checks.

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This study based on the reviewed literature investigates whether there is an association between corporate governance; board size, independence and size of audit committee and related party transactions. The hypothesis of the study are as follows:

Hypothesis 1: Board size has significant relationship with related party transactions.

Hypothesis 2: Independence of board of directors has significant relationship with related party transactions.

Hypothesis 3: Size of audit committee of board of directors has no significant relationship with related party transactions.

METHODOLOGY

Population and Sample Selection

This study uses the sample of listed banking institutions on Ghana Stock Exchange for the periods ending 2013 and 2017. That is, all listed banking firms in Ghana formed part of the population of this study and availability of the required data was very integral in the choice of a listed bank as part of the sampled banks. In all, 7 out of the 9 listed banks, representing 77.78% were used for this study. Annual reports of the banks and other relevant data were collected from the banks as well as the websites of Bank of Ghana (BoG) and Ghana Stock Exchange (GSE).

Research Model

This study examines whether there is an association between related party transactions that allegedly used to manipulate earnings and corporate governance, particularly focuses on the characteristics of board of directors: board size, independence and size of audit committee. The choice of an estimator for the working model depended on the outcome of the model specification test. For the RPT working model, the Durbin-Wu-Hausman specification test was statistically insignificant at α=5%. The study therefore chose the random effects model as proposed by Torres-Reynia (2007) as ideal in such situations in that random effects model assumes that an entity's error term is not correlated with the predictors which allow for time invariant variables to play a role as explanatory variables. To test the hypothesis, this study performs Random-effects GLS regression on the model below:

$$RPT_{i,t} = \alpha_i + \beta_1 BOS_{i,t} + \beta_2 INDEP_{i,t} + \beta_3 AUDCOM_{i,t} + \beta_4 FOREIGN_{i,t} + \beta_5 SIZE_{i,t} + \mu_t + \varepsilon_{i,t} \quad (1)$$

Where, RPT; total amount in related party transactions, BOS represents board size, INDEP is the independence of the board, AUDCOM represents the size of the board's audit committee, FOREIGN represents foreign ownership, and SIZE represents the size of the firm.

Dependent variable: Related party transaction variables

To investigate the impact of corporate governance on related party transactions, this study employs the natural logarithm of firm's total related party transactions. The total amount involved in related party transactions as reported in the annual reports of the firms was used to gauge related party transactions and possible conflict of interest in governance.

Independent variables (Corporate Governance)

This research considers the relationship between related party transactions and corporate governance with a particular attention on selected characteristics of board of directors namely board size, independence and size of audit committee. Previous studies have used these variables as a representation of corporate governance and there seems to be a consensus.

Control variables

Based on prior studies, some other factors influencing related party transactions of a firm are included in the regression model as a control variable. This study controls for firm size by including the natural log of total assets (SIZE), and control for foreign ownership by looking at the total percentage of shares owned by foreign investors.

Measurement of Study Variables

Table 1: Measurement of Study Variables

Variable	Proxy	Measurement
RTP	Related Part Transactions	Natural log of total amount in related party transactions
BOS	Board Size	Number of members in the board of directors
INDEP	Independence of board of directors	Number of non-executive independent members on the board
AUDCOM	Size of Audit Committee	The number of committee members
FOREIGN	Foreign Ownership	Total percentage of shares owned by foreign investors
Size	Size of a bank	The natural log of total assets

Diagnostic and Specification Tests

For the purposes of having reliable outcomes, it was necessary for the researchers to ensure that, some basic assumptions of the Classical Linear Regression Model (CLRM) were met. The basic assumptions that were considered comprised of (1) homoscedasticity of the error terms, (2) no perfect multi-collinearity between the explanatory variables, (3) no autocorrelation of the error terms, (4) correct specification of the regression model, and (5) normality of residuals. These tests were conducted and corrective mechanisms employed when a said assumption is violated.

DATA ANALYSIS AND EMPIRICAL RESULTS

This section presents the study's empirical results as well as the types of diagnostic and specification tests carried out in relation to the assumptions of the Classical Linear Regression Model (CLRM). The researchers tested for multi-collinearity, data normality, heteroscedasticity, serial or autocorrelation, and model specification and the results have been captured in this section. The descriptive analysis as well as the regression results are also captured in this section.

Test for Multi-Collinearity

To develop the panel analysis, the researchers analyzed the inflation factor of the variance, which was necessary to prove that there was low collinearity. That is, a test for multi-collinearity was checked using the Variance Inflation Factor (VIF) or the degree of Tolerance (1/VIF). The decision rule was that, a variable with a VIF greater than 10 (VIF>10) or a degree of tolerance less than 0.1 (1/VIF < 0.1) was considered to be highly collinear with other explanatory variables. As seen in table 2 below, the VIFs and their corresponding degree of tolerance (1/VIF) for BOS, INDEP, AUDCOM, FOREIGN, and SIZE show that they are not highly correlated with each other since none of them has a VIF up to 10 or less than a degree of tolerance of 0.1.

Table 2: VIF and Tolerance Test

Variable	VIF	1/VIF
BOS	8.53	0.117178
INDEP	6.39	0.156588
AUDCOM	3.08	0.324276
FOREIGN	2.64	0.378379
SIZE	2.60	0.384024
Mean VIF	4.65	

(Source: STATA Output, 2019)

Test for Data Normality

The Shapiro and Wilk (1965) test was used to test for normality and the result is presented in table 3. As displayed in Table 3, the z-values for BOS, INDEP, AUDCOM and SIZE are all insignificant at α=5% [(p=0.00000) and the study therefore accepted the null hypothesis that, the data values of BOS, INDEP, AUDCOM and SIZE came from a normally distributed population and concluded that, the data values of the mentioned variables were normally distributed. However, the z-values of RPT and FOREIGN were statistically significant at α=5% [(p=0.02693 and 0.01519 respectively). Hence, the study failed to accept the null hypothesis that, the data values of RPT and FOREIGN came from a normally distributed population and concluded that, the data values were not normally distributed. Therefore, a more generalised and robust regression estimator was considered as ideal for the data values of the study as such estimators correct the issue of data abnormality in the classical regression analysis.

Table 3: Shapiro-Wilk test for Data Normality

Variable	Obs	W	V	z	Prob>Z
RPT	35	0.92945	2.518	1.928	0.02693
BOS	35	0.97128	1.025	0.052	0.47935
INDEP	35	0.96669	1.189	0.361	0.35890
AUDCOME	35	0.99229	0.275	-2.693	0.99646
FOREIGN	35	0.92096	2.821	2.165	0.01519
SIZE	35	0.98657	0.479	-1.536	0.93770

(Source: STATA Output, 2019)

Test for Heteroscedasticity

For this study, Breusch and Pagan (1979) and Cook and Weisberg (1983) test for heteroscedasticity, which tests the null hypothesis of homoscedasticity or the lack of heteroscedasticity in linear regression models, was used. The result shown in table 4 below shows that the chi2 value of 2.29 for the RPT working model turned out to be statistically insignificant at α=5% [(p=0.1305)>0.05] the 5% significance level [(p=0.0000). Therefore, the study failed to reject the null hypothesis of the absence of heteroscedasticity among the fitted values of the RPT working model, and it concluded that there was no heteroscedasticity among the fitted values of the RPT working model.

Table 4: Heteroscedasticity

Model	Chi2 (1)	Prob > Chi2
RPT	2.29	0.1305

(Source: STATA Output, 2019)

Test for Serial Correlation

The Durbin-Watson test for serial or autocorrelation was used in this study test the null hypothesis that, the errors are serially uncorrelated as against the alternative hypothesis that, the errors are serially correlated (Durbin & Watson, 1950; Durbin & Watson, 1951). The test produces a d-statistic with a value from 0 to 4 where; if the value is 2, it means no autocorrelation, 0 to <2 means positive autocorrelation, and >2 to 4 indicates a negative autocorrelation detected in the sample.

From Table 5, the Durbin-Watson d-statistic value for RPT was 1.779668 and therefore, the study failed to accept the null hypothesis that, the errors were serially uncorrelated and indicated that there existed first order positive autocorrelation in the sample. Hence, a more generalised and robust regression estimator was viewed as ideal for estimating the study's working model

Table 5: Serial correlation

Model	Durbin-Watson d-statistic
RPT	1.779668

(Source: STATA Output, 2019)

Model Specification Test

Model specification involves the selection of the appropriate functional form for a model by choosing which variable(s) to include (Asterious & Hall, 2011; and Gujarati & Porter, 2009 and since model misspecification in regression analysis could have adverse effects on the sampling properties of both estimators and tests (DeBenedictis & Giles, 1996), the researchers undertook thorough model specification tests. The Durbin-Wu-Hausman test with the null hypothesis that the random effects model is preferred to that of the fixed effects model (Durbin, 1954; Wu, 1973; Hausman, 1978; and Greene, 2012), was used to make a choice for the RPT working model.

As shown in Table 6, the Durbin-Wu-Hausman test for the model specification for RPT working model showed a Chi2 of 1.05 which was statistically insignificant at α=5% [ch2(5) = 1.05, (p=0.9582)>0.05]. Hence, the study failed to reject the null hypothesis that, the random effects model was preferred against the fixed effects model and concluded that, the Robust Random effects GLS regression estimator was the best fit for the RPT working model.

Table 6: Model Specification

Model	chi2(5)	Prob>chi2
RPT	1.05	0.9582

(Source: STATA Output, 2019)

Descriptive Statistics on Study Variables

Statistical software package STATA version 15 was employed for all the data analysis at an alpha level of 5% ($p \leq 0.05$).

Descriptive Statistics on Study Variables

The basic descriptive statistics of the variables are presented in Table 7. For each variable, the table shows mean, standard deviation, minimum and maximum. RTP had a mean value of 12.49286 with a standard deviation of 1.24372. The result also indicates that the sampled banks have RTP of 9.78 minimum and a maximum of 14.19. The mean of BOS is 9.6 while the number of board of directors ranges between 8 and 12 minimum and maximum with a standard deviation of 1.438954. In terms of independence of board of directors, the mean is 6.542857, standard deviation is 1.80429 and a minimum and maximum number of independent directors are between 3 and 9. Also, the results shows that the minimum and maximum number of audit committee members of the banks are 4 and 6 respectively with a mean of 4.4 and a standard deviation of 0.9139443. The sampled banks have 91.93% maximum foreign ownership and a minimum of zero indication that some of the listed commercial banks have no foreign investors. The natural log of total assets measuring bank's size amounts to 14.999943 while it varies between 13.81 and 16.07 with a standard deviation of 0.5216712.

Table 7 Descriptive Statistics

Variables	RTP	BOS	INDEP	AUDCOM	FOREIGN	SIZE
Mean	12.49286	9.6	6.542857	4.4	48.94686	14.99943
Std. Dev	1.24372	1.438954	1.80429	0.9139443	32.04193	0.5216712
Minimum	9.78	8	3	3	0	13.81
Maximum	14.19	12	9	6	91.83	16.07
Observation	35	35	35	35	35	35

(Source: STATA Output, 2019)

Regression Results

To assess the effect of corporate governance on related party transaction of the sampled firms, the RPT was regressed on BOS, INDEP, AUDCOM, FOREIGN and SIZE and the results are shown in Table 9 as below;

Table 8: Robust Random Effects of Corporate Governance on Related Party Transactions

Variable	Coef.(β)	Robust Std. Err	z-statistic	Prob(z)
BOS	-.5831358	.2240284	-2.60	0.009
INDEP	.2870956	.2198671	1.31	0.192
AUDCOM	.2103491	.1939519	1.08	0.278
FOREIGN	.0312544	.008328	3.75	0.000
SIZE	-.1472897	.7193174	-0.20	0.838
CONS	15.96645	10.716	1.49	0.136
R-squared:		Wald chi2(5)		
Within	0.2772	Prob (chi2)	149.04	
Between	0.2843	Number of obs	35	
Overall	0.2680	Number of groups	**7**	

(Source: STATA Output, 2019)

As shown in table 8, the coefficient of BOS which represents the number of members in the board of directors, has a negative impact on related party transactions. In addition, the variable is significant in explaining the variability in the related party transactions of the sample banks.

The coefficient of INDEP and AUDCOM which represent the independence of board of directors and the number of members in the audit committee respectively, have positive and insignificant influence on related party transactions. Also, the coefficient of foreign ownership measured by the total percentage of foreign investors is positive and statistically significant whiles the size of the banks measured by the natural log of total assets has a negative coefficient but statistically insignificant.

The overall R-squared (R2) value of 0.2680 depicts that, the explanatory variable accounted for 27% the variations in RPT, whilst the unexplained variations [73% (100-27)] were accounted for by other inherent variabilities. The overall R2 value was statistically significant at α=1%. This is substantiated by the Wald chi2(5) value of 149.04 which was significant at the 95% confidence interval [(p=0.0000) <0.05). The Wald chi2(5) value being significant indicates that the explanatory variables had a combined significant effect on the firms' related party transactions. Fitting the coefficients into the RPT working model, the final model became;

$$RPT = 15.96645 - 0.5831358BOS_{i,t} + 0.2870956\ INDEP_{i,t} + 0.2103491\ AUDCOM_{i,t} + 0\ .0312544FOREIGN_{i,t} - 0.1472897SIZE_{i,t} + \varepsilon_{i,t} \quad (2)$$

DISCUSSIONS AND TESTS OF HYPOTHESIS

This section discusses the findings of the study which are done in relation to the review of existing and relevant literature. The effect that the independent variables have on the firms' related party transactions is discussed and conclusion on the study's hypotheses are presented.

Board Size(BOS) and Related Party Transactions

From the findings, BOS has a significantly negative influence on RPT at the 1% level of significance [β= -0.5831358, (p=0.009) <0.01. Which means that, an increase in the board size leads to a decrease in related party transactions and therefore the study accepts the null hypothesis that board size has significant relationship with a firm's related party transactions. The negative and statistically significant relation between board size and related party transaction is consistent with the findings of Sharkar et al. (2007). However, the negative coefficient of BOS seems to be against the findings of (Gordon et al 2004b; Kohlbeck and Mayhew 2004).

Board Independence (INDEP) and Related Party Transactions

From the study's findings, board independence has a positive but statistically insignificant relationship with firms' related party transactions at α=5% [β=0.2870956, (p= 0.192). The study therefore failed to accept the null hypothesis that there is a significant relationship between independence of board of directors and related party transactions. The positive relationship between the independence of board of directors and related party transaction is consistent with the findings of Sharkar et al. (2007). However, the positively insignificant relationship seems to be against the findings of other existing studies (Gordon et al 2004b; Kohlbeck and Mayhew 2004; Azim et al, 2018; Gallery, Gallery, and Supranowicz, 2008). Per these studies, the independence of the board should decrease the total amount of related party transactions, that is, a negatively significant relationship should exist between the two but findings of this current study indicates otherwise.

Size of Audit Committee of the Board (AUDCOM) and Related Party Transactions

The findings of the study show that, the size of audit committee on the board of directors is insignificant and has a positive relationship with related party transaction of sample firms at α=5% [β=0.2103491, (p= 0.278). Therefore, the study accepts the null hypothesis that there is no significant relationship between the size of audit committee and related party transactions. This seems to be in agreement with Mangena and Pike (2005) and Akhtarudin et al. (2009) who indicated that the size of the audit committee does not play any significant role when it comes to intellectual capital disclosures, which then means that the size of the audit committee may not necessary ensure a reduced-related party transaction and its full disclosure in the financial statements. On the other hand, Ho and Wong (2001) posit that; the presence of effective audit committee serves as the best mechanism to improve internal control and the inference here is that related party transactions can be put to checks.

Foreign Ownership (FOREIGN) and Related Party Transactions

From the findings, foreign ownership has a significantly positive influence on RPT at the 1% level of significance [β=0.0312544, (p=0.000) <0.01. The findings of this study is in contrast with (Jeon, 2019) who indicated an insignificantly negative relationship between foreign ownership and related party transactions. However, it seems to be in line with Hu, Shen, and Xu (2009, p.190) who found that ownership concentration was associated with larger magnitude of RP transactions. Chen, Cheng, and Xiao (2011) in their study of Chinese companies, which tend to have a concentrated ownership structure, found that this structure tends to lend itself to RP transactions resulting in agency conflicts of interest. The study therefore, states that foreign ownership in the Ghanaian banking industry influences related party transactions positively.

Firm's Size and Related Party Transactions

From the findings of the study, the coefficient of firm size as measured by the natural log of total assets is negative and does not statistically influence related party transactions. The negative coefficient is in line with the results of Azim et al, (2018), however, not being statistically significant supports the results of (Jeon, 2019) who found that there is no statistically significant relationship between firm size and related party transactions in the midst of corporate governance score(CGS). On the other hand, Gordon et al, (2004), found a positive and statistically positive relationship between firm size and related party transactions.

CONCLUSION AND POLICY IMPLICATIONS

This study sought to examine the relationship between corporate governance and related party transactions of banking institutions listed on the Ghana Stock Exchange (GSE). Specifically, the study sought to examine the effect that board size, board independence and size of board's audit committee have on the firms' related party transactions. After carrying out some diagnostic and specification tests to address the basic assumptions of the Classical Linear Regression Model (CLRM) and running the regression, the study revealed that board size has a significantly negative effect on the firms' related party transactions. This research provides evidence that the size of the board can reduce the total amount of related party transaction. This possibly could mean that if the board members are more, there is a less possibility of they conniving with management to engage in deals that relate to them and related parties compared to fewer number of board members. Therefore, regulators should be looking at wide spread and an increased number of board members to ensure that related party transactions are reduced.

On the other hand, the study uncovered that board independence and the size of audit committee have positive and insignificant relationship with related party transactions and the inference here is that banks may have non-executive independent board members and audit committee members but if the members are not strict and professional and are easily influenced, they won't be able to reduce related party transactions due to conflict of interest since they themselves are beneficiaries of related party transactions sometimes. It was also revealed that, there is a significantly positive relationship between foreign ownership and related party transactions. The study therefore concludes that, listed banks that are owned significantly by foreign investors engage in more related party transactions and a lot of funds could be flowing between the parent companies and their subsidiaries. It terms of the size of the firms, per the findings, the study concludes that firm size has no influence on the total amount of related party transactions which means that, size is not a determining factor as to the amount of related party transactions among firms.

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