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Analysis of the Effect of Monitoring Activities on Banks Financial Performance: A Case of Ghanaian Banking Sector

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Abstract

Monitoring plays a major role in the functions performed by banks as it ensures that activities are done as per the laid down policies and procedures. This affects the performance of banks. This study analysed the effect of monitoring activities carried out by the management of the banks on the financial performance of the banks. The study's main objective was to determine the effect of the monitoring activities on the financial performance of banks in Ghana. The researchers adopted a survey design for this study. The study population was 20 universal banks operating with a universal banking license. A sample of 676 participants from the 20 banks took part in the survey. The study adopted a survey research design. The population of the study was 20 banks. The data collected was analysed using hierarchical linear regression. The outcome of the analysis suggested that monitoring activities had a negative effect on financial performance. The effect was further found not to be significant. This implies that banks' monitoring activities were not a significant predictor of financial performance aside from negatively affecting financial performance. The results imply that banks and regulators are required to pay particular attention to the components of monitoring activities and ensure that they are aligned towards enhancing the financial performance of banks. The researchers recommended that, considering the limitations of this study, future researchers replicate similar studies in other sectors or expand the scope to include rural banks and savings and loan institutions.

Keywords

Internal Audit, Monitoring Activities, Bank of Ghana, Financial Performance

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1. Introduction

Internal audit contributes significantly to the attainment and implementation of corporate objectives [18]. The internal audit role also supports the board and management committee [15]. Over the years, the role of internal audits in companies has also increased. The reason for this is, as a result, the internal audit function being viewed as a collection of processes that help the firm by reviewing controls and actions taken by the organisations to assure desired outcomes. According to Mikes & Kaplan [19], volatilities in the economic environment, complicated business conditions, fraudulent practices, controversies in accounting practice and inadequate business governance have made it virtually impossible for businesses to achieve their financial objectives. To analyse the perceived company risks fully and recommend timely corrections,

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effective monitoring is essential or needed. Monitoring ensures that organizations achieve their goals and resources are efficiently utilized, leading to an improvement in profits or financial performance of institutions.

Organizational systems must be monitored to ensure that management delivers the results it wishes to achieve. This monitoring should be carried out by evaluating the quality of systems and processes and ensuring that all systems and procedures operate according to the policies and regulations put out. Monitoring is characterized as continuous monitoring when performed in normal operations, including routine supervision and management activities, and other measures taken to assess the quality of the internal control system performance by employees in the execution of their tasks [7]. Banking performance in recent years has been an issue of concern to stakeholders. With stakeholders losing trust and confidence in the management of banks, it has become necessary for the actions of management to be monitored to ensure that management follows the guidelines as laid out by the regulators and the bank management. This study seeks to address the issue of how banks' monitoring activities affect the performance of the banks.

1.1. Research Problem

The banking sector is made up of 23 universal banks which are regulated by the central bank, which is the Bank of Ghana. The function of the central bank is to provide the guidelines and directives that are supposed to guide the banks to ensure stakeholder trust and confidence reposed in them by their owners of the business. Although the regulator of the banking sector has continuously continued to implement policies and procedures and guidelines that seek to improve the operations and performance of the banks, the banks continue to face challenges that have affected their performance, calling for more directives and stringent measures to ensure banks operate in the interest of their clients and owners. These measures focus on capital requirements without considering monitoring that ensures that policies and procedures are adhered to.

Prior research has shown the contribution of monitoring contextually focused on institutions such as faith-based organizations [3]; Agroprocessing firms [12]; Tertiary institutions [2]. Other studies done in the Ghanaian context and the international banking sector failed to show their contribution to the entire banking sector or control for confounding variables such as [6, 22].

This study is designed to fill the research gaps identified by examining the effect of monitoring activities on the performance of banks, using the Ghanaian banking sector as a case study.

1.2. Research Objective

In this current study, the main objective is to assess the effect of monitoring activities on the performance of banks operating in Ghana.

2. Literature Review

Internal audit is now an essential aspect of managing public and private organisations to ensure effective control. Regulatory systems are methods established to monitor, encourage or restrict the different business operations of a company, to ensure that the company's goals are accomplished. Internal auditing is an internal technique used by employees of a company to carry out their tasks effectively. Also, it provides impartial assessments of the effectiveness, efficiency, and economy of the management control system within an organisation [5].

The objective is to reassure management that their internal control systems are suitable and functioning adequately for the needs of the company [23]. It is an element of a company's management's internal control system for the examination, assessment, and reporting of accounting and other control procedures. The quality and efficiency of internal audits are important as internal auditors handle a wide range of functions, all of which do not concern the accounting areas of interest of the external auditor.

It has been observed by Emasu [4] that internal audit functions are partly effective; the legal and regulatory framework, the positioning and independence of the function, the existence of audit committees, the functional resources, and the professionalism of internally-structured audit workers. " The fact remains, nevertheless, that the rarely sufficiently assisted internal audit departments. Gerrit & Mohammad [14] discovered evidence to support the monitoring role of the internal audit function concerning the size and facilitation of the internal audit function.

2.1. Theoretical Review

According to stewardship theory, because individuals can be trusted to function for the greater good and for the advantage of their shareholders, it helps make sense to establish management and authority systems that, by delivering central command and encouraging independent decision making, facilitate companies to react swiftly and decisively to business opportunities. The CEO and board chairperson positions are combined as part of this method, and audit committees are either non-existent or light. Stewardship theory presumes managers are trustworthy, motivated by intrinsic instead of extrinsic incentives, and self-motivated to promote mutual interests [21, 8].

As an alternative to agency theory, stewardship theory contends that when leaders and agents share ideas or when businesses develop selfless ideals, responsible conduct is handled internally [9]. A steward maintains and maximises shareholder wealth via company success because it maximises the utility function of the steward [8]. One of the key distinguishing features of this theory is that it replaces the lack of trust in authority and ethical behaviour pointed to by agency theory [10] According to stewardship theory, directors and managers are viewed as stewards of a firm whose major goal is to improve the interests of its owners [8]. Furthermore, the theory contends that success and appreciation, the intrinsic joy of excellent outcomes, and the manager's respect for authority and work ethic all influence management decisions in addition to money [8, 6, 20].

2.2. Empirical Review

In a study titled the effect of internal audit practices on the financial performance of Ghanaian banks, Ofei, Andoh-Owusu, & Asante [22] evaluated the effect of monitoring activities on the financial performance of Ghanaian banks. In their examination, the researchers used a sample of 154 people. Questionnaires were used to collect data for the study, and the data was analyzed using multiple regression. The study's findings indicated that monitoring activities had a significant positive effect on the financial performance of Ghanaian banks. It also suggests that existing monitoring policies, processes, and activities be examined regularly to ensure that they remain relevant in the face of changing competition and innovations. Even though it only looked at five institutions, this study was unable to explain the implications of monitoring operations on the broader banking system. The study did not account for the effects of demographic factors such as gender, age, education, experience, and job tenure.

Ayimpoya Mbilla, Nyeadi, & Gbegble, [6] researched to determine the effect of monitoring on bank performance in Ghana. The study attempted to evaluate the impact of surveillance on the financial performance of banks in Ghana as part of the study's basic objective. The research sample size was 300 respondents from publicly listed banks, and the results were analyzed using descriptive and inferential statistical methods. According to the findings of their study, monitoring has no significant effect on the financial performance of Ghana's listed banks. As a result, the study recommends that the management of publicly listed banks spend more on monitoring activities to boost financial performance.

Andove, Fwamba, & Singoro [3] investigated the effect of monitoring activities on the financial performance of faith-based facilities in Kakamega County. Attribution theory, agency theory, and procedural justice theory underpinned the research. The target group consisted of 550 employees from faith-based health care facilities in Kakamega County. Methodologies such as stratified and simple random sampling were utilized. A sample size of 226 respondents was estimated using Fisher's procedure. Primary and secondary data gathering instruments were used. A questionnaire was employed as a primary data collection method to get first-hand information from respondents about internal control processes at their facilities. According to the findings, monitoring activities have a significant effect on the financial performance of faith-based facilities in Kakamega County. The study was conducted in Kenya, and it focused on a completely unrelated industry other than the banking industry.

Ahmed & Ng'anga [1] studied the effect of monitoring activities on the financial performance of county governments in Kenya's coastal areas. A descriptive study design was used by the researchers. The study's target demographic consisted of 30 personnel recruited from the Ministry of Finance, Budget, and Planning and the county governments of the Coastal area. The study focused on four counties in Kenya's coastal area, namely Mombasa, Kilifi, Kwale, and Taita, and the respondents were 40 financial managers recruited from the Finance Planning Ministry of the respective county governments. A survey of 40 people was conducted. Questionnaires were used to obtain primary data. Descriptive statistics and inferential statistics were used to analyze the data. The study discovered that monitoring activities have a positive and significant effect on financial success. County governments should have adequate resources for evaluating their financial performance to successfully track their goals, progress, and other critical performance measures throughout their financial operations.

Kumari & Weerasooriya, [17] conducted a study on the effect of monitoring activities on private commercial banks' financial performance; Special Reference to the Central Province of Sri Lanka. The researchers adopted a stratified sampling technique to select 70 executive-level employees for the study from private commercial banks in the central province. Data was collected using structured questionnaires. The study adopted a quantitative approach using a deductive reasoning approach or world view. The researchers analysed the data using multiple regression. The results of the study indicate that there was a significant impact of monitoring activities on financial performance.

In other studies, Ekessa [12] assessed the effect of monitoring activities on the financial performance of agroprocessing firms in Kisumu County, Kenya. The researchers employed a sample of 66 people in their investigation. The study's data was collected using

questionnaires, and the data was analyzed using multiple regression. The study's findings suggested that there was a significant positive effect of monitoring activities on the financial performance of agroprocessing firms in Kisumu County, Kenya. The study failed to show the contribution of monitoring activities in the Ghanaian context and also failed to show the contribution of monitoring activities to the banking sector. The study also failed to control for the effect of demographic variables such as gender, age, education, experience, and job tenure. Akinleye & Kolawole [2] examined the Internal Controls and Performance of Selected Tertiary Institutions in Ekiti State: A Committee of Sponsoring Organisations (COSO) Framework Approach. The study, as part of its specific objectives, examined the effect of monitoring on the performance of selected tertiary institutions in Ekiti state using a committee of sponsoring organizations (COSO) framework approach. A survey design was used in the study. In this study, the researchers used a population of five hundred and fifty-three (553) employees made up of the bursary departments as well as the internal audit staff. A sample size of four hundred and twenty-five (425) respondents was selected using a random sampling technique. Primary data was collected using questionnaires and the data was analysed using multiple regression analysis. The findings from the study revealed that the monitoring significantly and positively affected the performance of selected tertiary institutions in Ekiti state.

2.3. Conceptual Framework

The conceptual framework used for this study is in line with similar studies that identified monitoring activities as independent variables such as; [2, 17, 3] and financial performance as a dependent variable such as; [12, 22].

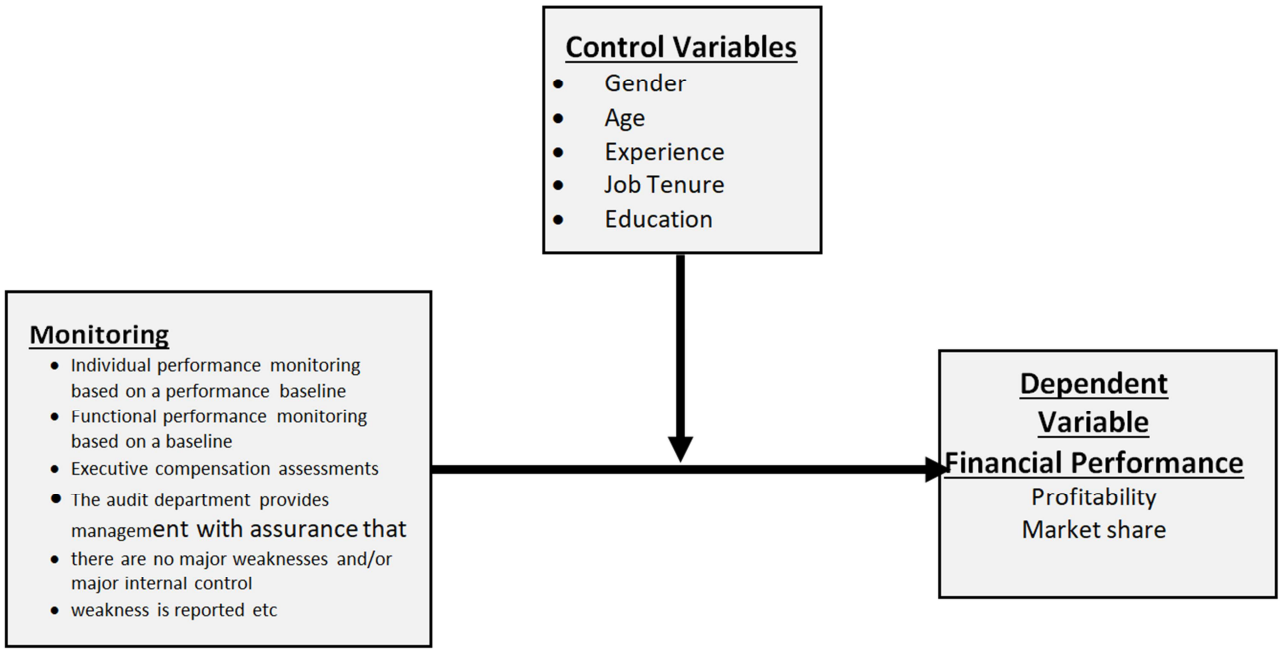

Figure 1. Researchers conceptual Framework.

3. Methods and Materials

3.1. Research Design

In this study, the research design adopted for the study was the explanatory research design. This was used to explain the effect of monitoring on the financial performance of banks in Ghana. As explained by Saunders, et al., [24], explanatory research investigates the association between variables. As an outcome, the data is being studied statistically using quantitative analytical approaches such as correlation and regression to gain a deeper understanding of the connection presented in-depth using qualitative data.

3.2. Sample and Sampling Procedure

This study used non-probability sampling techniques, with 760 respondents drawn from 20 banks, with 5 respondents drawn from the board of directors, 8 respondents drawn from the internal audit committee, 5 members drawn from the risk management committee, 15 members drawn from the operations department, and 5 respondents drawn from the managers.

3.3. Data Collection and Instrumentations

The study relied on primary data, which was collected from respondents through a questionnaire. This was undertaken since a questionnaire, as a tool, is among the most efficient

methods for allowing respondents to offer their perspective on a phenomenon while simultaneously providing access to responses from a larger sample. An efficient method of collecting responses from a large sample helps the researcher to assure that the researcher's notions are translated into quantifiable elements for quantitative analysis [24].

3.4. Model Specification

In analysing the effect of the monitoring activities on the financial performance of banks in Ghana, a hierarchical multiple linear regression model was used by the researcher to analyse the effects. the model used is as indicated below;

$$FP = \beta_0 + \beta_1 MA + (\beta_1 Gen + \beta_2 Age + \beta_3 Exp + \beta_4 Ten + \beta_5 Edu)$$

Where;

FP = Financial Performance

MA = Monitoring Activities at time t

Gen = Gender

Age= Natural age of respondents

Exp = Experience i.e No of years performing the assigned role

Tenure = Tenure i.e number of years employed

Edu = Level of academic education

4. Results and Discussion

4.1. Results from Descriptive Statistics

Table 1. Descriptive Statistics.

Variable	Statistics	Statistic	SE	Shapiro-Wilk's	p
Financial Performance	Mean	53.11	0.28	0.96	0.000
	Skewness	-1.31	0.09		
	Kurtosis	2.52	0.19		
Monitoring Activities	Mean	24.74	0.13	0.95	0.000
	Skewness	-0.61	0.09		
	Kurtosis	0.02	0.19		

In the data normality test, data is deemed normal when the skewness and kurtosis lie between-3 and 3. This implies that the predicted kurtosis or skewness should be less than three or more than three. This criterion is satisfied by all of the variables listed above. As a result, the data for the variables was normally distributed. The use of kurtosis and skewness can, on the other hand, be deceptive [13]. As such, the Shapiro-Wilk's test, which confirms data normality at $p > 0.05$, was conducted in line with the recommendation of [13]. It can be seen that financial performance and monitoring did not meet the above criterion. Although normality is not met using the earlier criterion, Garson [13] noted that deviation from normality is not problematic if the sample size is large (i.e. sample size 400) or the skewness and kurtosis assumptions are met. Based on this information, a basis is established for proceeding with the proposed parametric test.

4.2. Assessment of Data Reliability and Validity for Multidimensional Constructs

This section assesses the reliability and validity of the multi-dimensional construct, the results of the assessment are presented in the table below.

Table 2. Psychometric properties of multi-dimensional constructs.

Construct	Domain	Item	CR	CA	AVE	MSV
Financial Performance	F1	Sales volume	0.567	0.788	0.597	0.245
		Profit levels	0.832			
		Return on investment (ROI)	0.499			
		Return on sales (ROS)	0.567			
		Market share	0.821			
	F2	Growth in sales	0.543	7.432	5.630	2.315
		Growth in profitability	0.661			
		Growth in ROI	0.801			
		Growth in ROS	0.722			
		Growth in market share	0.555			
All scale	---	---	---	0.822	---	---
		Ability to detect deviations from standards	0.41			
		Ability to correct deviations from standards	0.77			
		Executive compensation assessments	0.50			

ł CR – composite reliability; CA – Cronbach's alpha; AVE – average variance extracted; ASV – maximum shared variance; MA – Monitoring Activities

In the above Table, the first construct is financial performance, which produced two factors. Factor loadings for each factor met the condition *composite reliability* ≥*0.5* as recommended [11]. This condition is also met for each factor of monitoring activities. Factors of the two constructs also met the condition *Cronbach's α* ≥*0.7*. This condition is also met for the whole construct. That is, the internal consistency of the factors and constructs was met. Convergent validity and discriminant validity, which are indicators of construct validity [16], are assessed with the average variance extracted (AVE) and maximum shared variance (MSV). Convergent validity is met with the criterion CR<AVE whereas discriminant validity is met with the condition MSV<AVE [16]. In the table, both conditions are met by the two constructs. Hence, construct validity was confirmed for the two scales.

4.3. Model Fit Indices

This section presents the model fit indices for the measurement models, the results of the assessment are presented in the table below.

Table 3. Model fit indices for the measurement models.

Variables	Chi-square(χ^2)	p	RMSEA	TLI	GFI	AGFI
Financial performance	1.271	0.132	0.021	0.984	0.971	0.991
Monitoring Activities	2.12	0.144	0.062	0.952	0.926	0.955
Recommended	≤3	≥0.05	≤0.08	≥0.95	≥0.9	≥0.9

ł RMSEA – random mean square error of approximation; TLI – Tucker-Lewis Index; GFI – goodness-of-fit indices; AGFI – adjusted goodness-of-fit indices.

The above table shows the model fit statistics for the two measurement models used to compute statistics in subsequent Tables. The table also shows the recommended baselines or criteria. It can be seen that all the statistics met the recommended criteria, suggesting that both models were of satisfactory fit. Results in the above exploratory analysis, therefore, set a satisfactory foundation for analysis data with a parametric statistical tool such as HLR analysis.

4.4. Descriptive Statistics Showing Ratings on the Main Variables

Table 4. Results of descriptive statistics of main variables.

Variable	Maximum	Mean	Mean (% of Maximum)	SE	SD
Financial Performance	50	38.75	77%	0.20	5.24
Monitoring activities	30	24.74	82%	0.13	3.49

The role of the table above is to estimate the perceived level of the key variables. Since the 5-point scale was associated with a continuum of descriptive anchors, the level of a variable (i.e. whether a variable is high or low) depends on the size of the mean score corresponding to that variable. Similarly, a variable increase as its average score gets closer to its maximum value. The standard error (SE) and SD are indicators of the precision of the estimate [13]. The precision of the variable increases as the SE and SD decrease. It can be said that all the variables in the table are high because they account for more than 70% of the maximum score. Monitoring activities accounted for the largest relative mean score (Mean = 24.74; SD = 3.49), which is 84% of the maximum score. This result suggests that financial performance was rated to be at the highest level of practice. The financial performance produced the smallest relative mean scores representing 77% of the maximum score. These findings suggest that financial performance was high, likewise the other variable.

4.5. Correlation Results

Table 5. Results from correlation analysis.

Variable	#	1	2
Financial Performance	1	1	.342**
Monitoring Activities	2		1

**p<0.001; *p<0.05.

The table above shows the correlation matrix of relevant variables including covariates. In the table, financial performance is positively correlated with monitoring activities (r = 0.342; p = 0.000; two-tailed. This result suggests that the financial performance of the bank's increases as the monitoring activities increase.

4.6. Regression Results

This section presents findings on the specific objective and hypotheses as recalled as follows:

Monitoring activities have a significant effect on financial performance among the banks.

Table 6. Regression Results.

Model	Predictor	Coefficients			Collinearity Statistics		
		B	SE	β(*t*)	Tolerance	VIF	Dubin Watson
1[a]	(Constant)	12.408	1.469	(8.45)			
	Monitoring activities	-.058	.063	-0.38(-0.92)	0.75	1.34	1.67
2[b]	(Constant)	10.443	1.800	(5.80)**			1.65
	Monitoring activities	-.025	.064	-0.17(-0.4)	0.70	1.43	
	Covariate	1.384	.323				
	Gender (reference – male)	.069	.225	0.13(4.28)**	0.88	1.13	
	Age	1.376	.443	0.01(0.31)	0.84	1.20	
	Experience	-1.397	.426	0.33(3.10)**	0.17	4.64	
	Job tenure	.157	.218	-0.35(-3.28)**	0.17	4.72	
	Education	12.408	1.469	0.02(0.72)	0.87	1.15	

**p<0.001; *p<0.05; [a]baseline model without covariates; [b]ultimate model with covariates; SE – standard error; VIF – variance inflation factor

The results of the hypotheses are captured in the table above. With this table, the researcher examined the direct effects of monitoring activities on financial performance. These effects are tested in two regression models. The first model did not adjust for covariates whereas the second adjusted for covariates. Though the source of the final results is the second (ultimate) model, a comparison of the two models is necessary to understand the influence of the confounding variables in the second model. In the ultimate model, the monitoring activities (β = -0.17; t = -0.4; p = 0.075) has a negative effect on financial performance after controlling for the covariates, which confirms that as the financial performance of the bank's decrease, monitoring activities increases. The Durbin-Watson statistic of the model is also about 1.7, which falls within the range of 1.5-2.4 recommended by [13]. The Durbin-Watson statistic, therefore, connotes the absence of autocorrelation in the data. Moreover, each predictor accounts for a variance inflation factor (VIF) value ≤ of 5 according to [13], indicating that the multi-Collinearity assumption is met for the model.

The results of the study showed that monitoring in banks did not have a significant effect on the performance of banks in Ghana. This indicates that there was a negative effect of monitoring on the financial performance of banks in Ghana. This result is consistent with the study results of [6]. The similarity in results may be as a result of the fact that banks in Ghana have similar monitoring procedures and systems because of the application of the corporate governance directives as issued by the Bank of Ghana, or as a result of the nature of banks used by the other researchers as the banks differ in operations and setup. However, the study is in contrast with the study done by [17, 2] who found a positive significant effect of monitoring on the financial performance of banks in Ghana. The contradiction in is study results suggest that maybe the monitoring activities and processes for banks used by both sets of researchers might be different as some banks may practice good monitoring practices, whilst others may not. Similarly, the differences can be attributed to the fact that although there are directives by the Bank of Ghana on the need for an internal audit committee, the directive does not specify the type of activities to be included in the monitoring aspect of the committee, as banks may opt for monitoring activities that best serve their interest or fit into their long-term specific goals of the banks.

5. Findings and Recommendations

The study results as shown by the analysis indicates that monitoring as an internal audit activity was not a significant predictor of performance of banks and has a negative effect on financial performance, this implies that banks performance decrease as monitoring activities improve and this is likely to affect the operations of the banks as monitoring activities play a major role in the protection of assets of banks. It is therefore recommended that management of banks, review their policies on monitoring, strengthen their monitoring activities and also ensure employees have all required resources to ensure monitoring is done properly. The regulators of the banking sector should also ensure that banks report on their monitoring systems and necessary remedial actions taken by the banks to ensure monitoring is done in line with laid down policies. The study recommends that future studies be replicated in other sectors of the banking sector such as rural banks to determine the contribution of the monitoring activities on the performance of rural banks.

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