

Assessing the Moderating Effect Government Policy in the Relationship Between Control Activities and Financial Performance of Banks in Ghana

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Abstract

Governments develop policies that are expected to help raise revenue and streamline the financial base of the government, but these policies affect the operations of institutions, which sometimes affect their financial performance, calling for necessary action to be taken. The goal of this study was to look at the role of government policy in moderating the link between control actions and financial performance in Ghanaian banks. The primary objective of the study was to evaluate the interaction effect of government policy on the link between control activities and the financial performance of Ghanaian banks. In the study, a survey research design was employed. The population of the research comprised 20 banks. The sample size for the study included 676 people from the board and management committees, as well as operational personnel. The research was based on actual data obtained through surveys. The collected data was analyzed via hierarchical linear regression. After controlling for the influence of government policy, the study's findings indicated that control activities, as an internal audit activity, were a strong predictor of bank performance. It also reveals that government policy is highly significant when developing control activities for banks. This implies that control activities improve when moderated by government policy, and this also improves bank performance. As a result, it is suggested that bank management continually examine their policies on control operations. They should consider government policies when designing control activities to ensure that they do not affect the performance of their operations, as most government policies are revenue-based policies.

Keywords

Internal Audit, Government Policies, Control Activities, Bank of Ghana, Financial Performance

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1. Introduction

Banks play a major role in ensuring that individuals with surplus funds can channel their resources to others who require funds [11]. This implies that for banks to be able to perform these activities there is the need for the banks as institutions to be able to sustain their performance. Kinyua [9] asserts that for banks to be able to achieve their aim there

is the need for banks to take into consideration government policy to minimize its effect on its operations. Control activities according to Odek & Okoth [11] should be the best way to ensure that all factors are considered when planning for the activities of institutions.

Banking performance in recent years has raised many concerns about the bank's ability to ensure that they consider all factors that are likely to affect its performance. Ofei &

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Andoh-Owusu [12] indicated that banks need to consider government policies before developing their policies. Again, the authors have indicated that it is also important to governments to dialogue with banks and ensure that all policies that are developed by the government are positively placed to ensure banks perform without been affected by the Governments policies. This study seeks to ascertain the interacting effect of government policy in the relationship between control activities and financial performance. The study seeks to find responses to the question, to what extent does government policy affect the relationship between control activities and financial performance of banks with particular reference to the Ghanaian banking sector.

1.1. Research Problem

Control activities are undertaken according to Yasser & AL-Mamun [16] through policies and procedures to ensure that the direction of management to decrease its risks towards the achievement of specified goals is followed. To guarantee that policies and procedures are implemented which ultimately enable the company to meet its goals, control activities are carried out at every level of an organisation. Governments, in turn, develop policies that include revenue-based policies which have an impact on the finances of institutions. It is therefore important for businesses to consider these policies when developing their control activities. Despite efforts made by institutions in ensuring their activities are not hindered by the policies developed by governments. Organizations continue to have challenges with performance, this usually leads to the question of whether government policies interact with the relationship between control activities and if so to what extent. Previous researchers have attempted examining the effect of control activities without specifically looking at the interaction of government policy, examples include studies done by [11]; [10] and [4], these studies further failed to contextually show the contribution of their studies in the Ghanaian Context or the banking sector. Aside from that studies done, that moderated Government policy failed to show the contribution of its interaction using control activities such as Ofei & Andoh-Owusu [12], the study further failed to consider the entire banking sector, other studies such as the study done by Kinyua [9] also failed to consider control activities as the dependent variables. This study is positioned to show the interaction effect of government policy in the relationship between control activities and the financial performance of banks in Ghana.

1.2. Research Objective

The objective of this study was to assess the moderating effect of government policy in the relationship between control activities and bank performance in Ghana.

2. Literature Review

2.1. Theoretical Review

Greenwood, Oliver, Suddaby and Sahlin-Andersson [6] indicates that the institutional theory has been recognised as one of the main viewpoint aspects in an organisation and its management; the functional effect of corporate governance codes has been thoroughly examined [7].

According to Beasley, Carcello & Neal [1], because of its insights into the nature of power and the control systems institutional theory has a good position to add to CG interpretation by researchers. Institutional theory, according to Beasley, Carcello & Neal [1], indicates that governance institutions are frequently largely symbolic/ceremonial; their power is ultimate, but formal procedures are frequently tightly connected with real monitoring. According to the notion, many organisational procedures, such as internal auditing, are developed largely to fulfil societal expectations ([7]; [3]).

The board of directors' two primary duties, according to institutional theory, are linkage establishment and administration [15]. The board's connecting role focuses on creating ties between the company and the external community, whereas its administrative function focuses on supervising senior management's performance, particularly that of the CEO.

According to institutional theory, new CG code implementation is typically met with the opposition [3]. This disagreement will result in "decoupling," in which the firm prefers to adapt to the code while maintaining its old practices, with little or no actual change in organisational behaviour. This highlights the significance of tackling persistent socioeconomic, historical, and political variables that might affect an organization's ability and willingness to embrace new regulations or processes Cohen, Krishnamoorthy & Wright [3], and therefore its approach to CG [1].

The institutional theory is employed in this study because it holds that governance systems are the result of either coercion by policymakers attempting to improve organisational performance via the imposition of new practices or imitation [17]. As a result, the study's motivation for introducing control, corporate governance, and monitoring operations. In the preceding instance, an organisation can increase its prestige by adopting a structure that has been effectively implemented by other companies [3]. This inter-organizational imitation may aid in the homogenization of CG activity over time [2]. However, supporters of the institutional theory argue that the theory's emphasis on imitation limits its capacity to accommodate variation and change [3]. Researchers generally agree that

institutional theory, when combined with agency theory, provides a helpful lens for understanding the function and practises of Internal Audit.

2.2. Empirical Review

Empirically Ofei & Andoh-Owusu [12] conducted a study that moderated the effect of government policy on relationships between internal audit function and its financial performance using banks from the Ghanaian banking sector. The researchers utilised a sample of 154 chosen from 5 banks and the research was conducted using a quantitative technique. Researchers collected data using structured surveys and analysed the data using methods of inferential statistical analysis. The findings revealed that government policy does not have a significant effect on the relationship between internal control and financial performance. The researchers advised that the management team ensure the strengthening of the control environment by reviewing current policies and procedures in the field of asset and property protection taken by the banks and that the control policies and practices, methods and activities carried out for safeguarding them should be constantly reviewed in order not to misrepresent value. The study failed to specifically show the contribution of the study in the context of control activities. Neither did the study show the contribution concerning the entire banking sector. In another similar study to determine the moderation effect of government policy, Saunders, Lewis & Thornhill [13] interacted the government policy in the relationship between the internal control environment and the financial performance of banks in Ghana. 154 participants were used for the study and the results suggested that government, the research instrument used in the survey was a structured questionnaire, the data collected was inferentially analyzed using a hierarchical multiple regression model, and the results indicated that government policy was a significant moderator of the

relationship between control environment and financial performance, it was observed the effect tend to reduce after the moderation. Based on the study results, the researchers made few significant recommendations, among the recommendations given was for the management of the banks to constantly review the control environment developed and its policies and ensure that Government policies are factored in its establishment, this is to ensure that the assets and resources of the banks are duly protected and in-turn improves the performance of the banks. The study failed to explain the effects of the research on the whole banking industry generating a research gap that must be addressed for this current study.

Kinuya [9] in a study that sought to examine the effect of control internal control systems on the performance of firms listed on the Kenya stock exchange, moderated the effect of Government policy in the relationship between internal control environment and financial performance, focusing on companies listed on the Kenyan stock exchange. The study included a population of 62 firms, and a sample of 38 participants was chosen from the Kenyan stock exchange companies. To assess the interaction effect, the study employed regression analytics. The study findings indicated that government policy significantly moderated the relationship between internal control environment and financial performance of institutions listed on the Kenyan stock exchange. However, the study did not show the empirical evidence of the moderation on the entire firms listed on the Kenyan stock exchange or consider all banks in Kenya, the study failed to also how the contribution of the study in the context of Ghana.

2.3. Conceptual Framework

The conceptual framework for this study has been captured and presented in the diagram below;

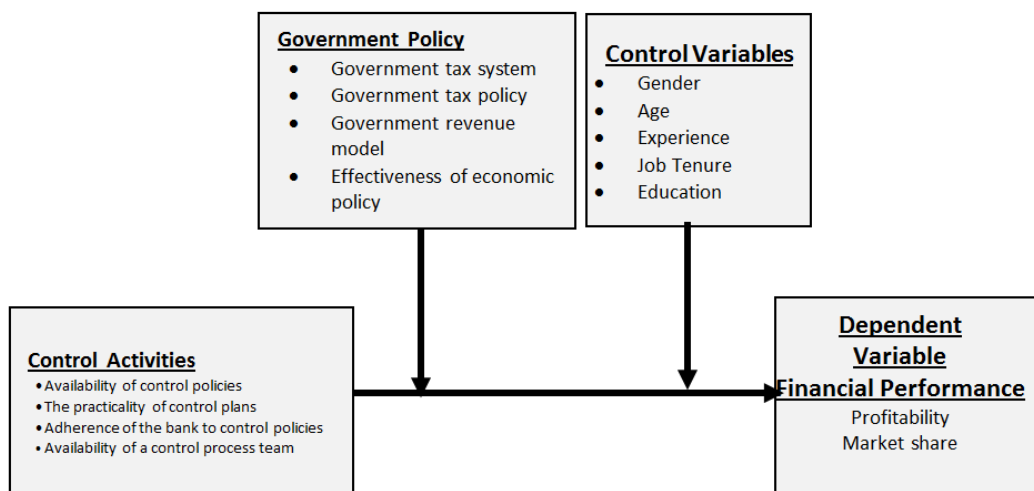


Figure 1. Researchers Conceptual Framework.

3. Methods and Materials

3.1. Research Design

The researcher made use of exploratory research in this study to discuss the study's results. Exploratory research investigates the association between variables [14]. The conduct of exploratory research, and identified social problems or phenomena, leads to the need to understand the relationship between variables identified in the social problem or phenomenon. Given this, the analysis is done quantitatively to have a better understanding of the problem on hand.

3.2. Sample and Sampling Procedure

This research was based on the non – probability sampling techniques, a sample of 760 respondents were selected from 20 banks with 38 respondents drawn from the various statutory committees and groups as prescribed by the Corporate Governance directives, issued by the Bank of Ghana.

3.3. Data Collection and Instrumentations

This study made use of primary data; a Questionnaire was developed and used to solicit the views of the respondents. This was done because a questionnaire as a tool, is one of the most effective tools that allow the respondent to provide his or her view on a phenomenon and also it allows access to the responses of respondents when the sample size is large. An efficient method of collecting data from a large sample helps the researcher to ensure that the researcher's notions are translated into quantifiable elements for quantitative analysis [14].

3.4. Model Specification

To analyse the interaction effect of government policy on the relationship between control activities and the performance of banks in Ghana. The model below was used in the form of a hierarchical linear regression. The study used the following model;

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

Where;

FP = Financial Performance

GPOL*CA = Government Policy*Control Activities at time t

Gen = Gender

Age= Natural age of respondents

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

Tenure = Tenure i.e number of years employed

Edu = Level of academic education

4. Results and Discussion

4.1. Descriptive Statistics

Table 1. Normality test results.

Variable	Statistics	Statistic	SE	Shapiro-Wilk's	p
Financial Performance	Mean	53.11	0.28	0.96	0.211
	Skewness	-1.31	0.09		
	Kurtosis	2.52	0.19		
Control Activities	Mean	16.11	0.13	0.85	0.143
	Skewness	-1.51	0.09		
	Kurtosis	2.86	0.19		
Government Policy	Mean	19.42	0.11	0.92	0.000
	Skewness	-1.03	0.09		
	Kurtosis	2.08	0.19		

The above table is used to test for normality of data used for the analysis, skewness and Kurtosis were used to determine outliers in the data as used by Ofei & Andoh-Owusu [12], for outliers to be absent from data the skewness and kurtosis should fall between -3 and 3, this implies that the data should fall between 3 and -3. Inferring from the table, it is observed that the variables' data were normally distributed. Garson [5] has indicated using only skewness and kurtosis can be misleading, hence there is the need to use Shapiro -Wilks's test to confirm whether data is normally distributed, this is confirmed when the P-value of the Shapiro-Wilks test is greater than 0.05. from the table, it is observed that financial performance and control activities were normally distributed whereas Government policy was not. This according to Garson [5] should not be an issue when the sample size is equal to or greater than 400. Based on these results further assessment is done.

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	---	---	
CA	Availability of control policies	0.861	0.756	63.3	0.717	
	The practicality of control plans	0.736				
	Adherence of the bank to control policies	0.802				
	Availability of a control process team	0.840				
	Availability of control policies	0.861				
GPOL	The government can utilize its tax system to provide a viable economy for banks	0.591	0.877	59.2	0.697	
	The government's tax policy supports bank operations such as internal audit	0.524				
	The government's revenue generation model is being used to effectively drive economic growth	0.583				
	The government's economic policy is effective at controlling the inflation rate	0.459				
	Ghana government's economic policies are better compared with those of neighbouring governments	0.801				

† CR – composite reliability; CA – Cronbach's alpha; AVE – average variance extracted; ASV – maximum shared variance; CA –Control Activities, GPOL – Government Policy

The table above contains the results for the reliability and validity tests done for the constructs. Financial performance is observed to have produced two separate factors. In the above Table, the first construct is financial performance, which produced two factors. It is observed that the Factor loadings for each factor met the condition *composite reliability* ≥ 0.5 as used by [9]; [12]. This condition is also met for each factor of control 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. According to Kelava [8] construct validity is

measured by average variance extracted (AVE) and maximum shared variance (MSV). For Convergent validity to be met $CR < MSV$ and for discriminant validity to be met $MSV < AVE$, from the results, as captured in the table, all constructs met this criterion.

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
CA	2.18	0.164	0.062	0.972	0.956	0.945
GPOL	2.32	0.132	0.052	0.934	0.941	0.913
Recommended	≤ 3	≥ 0.05	≤ 0.08	≥ 0.95	≥ 0.9	≥ 0.9

† RMSEA – random mean square error of approximation; TLI – Tucker-Lewis Index; GFI – goodness-of-fit indices; AGFI – adjusted goodness-of-fit indices; CA- Control Activities

The model fit statistics for the two measurement models used to generate statistics in future tables are shown in the table above. The table also includes the suggested baselines or criteria. It can be observed that all of the data fulfilled the

specified criterion, indicating that both models fit well. As a result, the results of the preceding exploratory study provide a solid foundation for data analysis using a parametric statistical technique such as HLR analysis.

4.4. Descriptive Statistics Showing Ratings on the Main Variables

Table 4. Descriptive statistics showing ratings on the main variables.

Variable	Maximum	Mean	Mean (% of Maximum)	SE	SD
Financial Performance	50	38.75	77%	0.20	5.24
Control Activities	20	16.11	81%	0.13	3.26
Government Policy	25	19.42	78%	0.11	2.85

The table above's purpose is to measure the perceived level of the important factors. Because the 5-point scale was linked to a continuum of descriptive anchors, the level of a variable (whether it is high or low) is determined by the magnitude of the mean score relating to that variable. Similarly, a variable's average score rises as it approaches its maximum value. The standard error (SE) and standard deviation (SD) are used in this study to measure the accuracy of estimates. 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. Control activities accounted for the largest relative mean score (Mean = 16.11; SD = 3.26), which is 81% 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. Correlation Results.

Variable	#	1	2	3
Financial Performance	1	1	.462**	0.361**
Control Activities	2		1	0.054
Government Policy	3			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 control activities ($r = 0.462$; $p = 0.000$; two-tailed). Government policy is positively correlated with financial performance ($r = 0.361$; $p = 0.000$; two-tailed). This result suggests that the financial performance of the bank's increases as the control activities and government policy increase.

4.6. Regression Results

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

Government policy significantly moderates the relationship between Control activities and financial performance among the banks.

Table 6. Direct Effect Results.

Model	Predictor	Coefficients			Collinearity Statistics		
		B	SE	$\beta(t)$	Tolerance	VIF	Dubin Watson
1 ^a	(Constant)	12.408	1.469	(8.45)			
	Control Activities	.486	.070	0.30(6.96)**	0.42	2.41	1.67
	(Constant)	10.443	1.800	(5.80)**			1.65
	Control Activities	.513	.072	0.32(7.12)**	0.38	2.66	
2 ^b	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; ^abaseline model without covariates; ^bultimate model with covariates; SE – standard error; VIF – variance inflation factor

The hypothesis' findings are summarised in the table above. The researcher used this table to investigate the direct effects of control activities on financial performance. Two regression models are used to test these effects. The first model did not take variables into account, but the second did. Though the second (ultimate) model is the source of the final results, a comparison of the two models is required to understand the effect of the confounding factors in the second model. After adjusting for variables, control activities ($\beta = -0.32$; $t = 7.12$;

$p = 0.000$) have a positive influence on financial performance in the final model, confirming that when control activities are enhanced or expanded, bank financial performance improves.

An autocorrelation was tested using the Variance inflation factor (VIF) the results are expected to be ≤ 5 . Aside from that the Dubin Watson test which should fall within 1.5 – 2.4 was also met from the results in the table. This is an indication that the multi-Collinearity assumption is met for the model.

Table 7. Moderating effect results.

Model	Predictor	Coefficients			Dubin Watson
		B	SE	$\beta(t)$	
1 ^a	(Constant)	25.14	0.86	(29.234)**	1.78
	GPOL*CA	0.04	0.00	0.63(10.06)**	
	(Constant)	10.443	1.800	(5.80)**	1.78
	GPOL*CA	0.046	0.004	0.70 (11.22)**	
	Covariate	1.384	.323		
2 ^b	Gender ^c	1.541	0.34	0.14 (4.531)**	
	Age	-0.71	0.244	-0.10 (-2.911)**	
	Experience	2.877	0.466	0.68 (6.18)**	
	Job tenure	-2.504	0.449	-0.62 (-5.579)**	
	Education	0.417	0.232	0.06 (1.8)*	

**p<0.001; *p<0.05; ^abaseline model without covariates; ^bultimate model with covariates; SE – standard error;

The analysis results from the table suggest that control activities had a positive effect on financial performance as follows; ($\beta = 0.70$; $t = 11.22$; $p = 0.000$). In Table 6, the control activities were found to have an effect of 0.32 on financial performance, which increased to 0.70 in Table 7. What could have been inferred from this result is that the effect of control activities on financial performance was increased by Government policy.

The results of the study showed that control activities in banks had a significant effect on the performance of banks in Ghana after moderating for the effect of government policy and controlling for the effects of demographic variables. However, this result is in line with the studies done by Kinyua [9] who also found a positive effect of control activities on financial performance in their studies after moderating the effects of Government policy. The plausible explanation for this result is that the banks are performing their control activities per the guidelines as provided by the corporate governance directives issued by the bank of Ghana. Furthermore, it can also mean that banks are more focused on internal control activities and follow their internal policies and procedures. It is further observed that government policy interacts positively with control activities.

5. Findings and Recommendations

The study results revealed that control activities, as an internal audit activity, were a significant predictor of bank performance after moderating for the effect of government policy. It also reveals that government policy is highly significant when developing control activities for banks. This implies that control activities improve when moderated with government policy and this also improves bank performance. As a result, it is suggested that bank management continually examine their policies on control operations, they are to

consider government policies when designing control activities to ensure that it does not affect the performance of their operations as most government policies are revenue-based policies. The regulators of the banking sector should also ensure that banks report on their control activities and systems are reported on to the regulators along with necessary remedial actions taken by the banks to ensure controls are 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 control activities on the performance of rural banks. Future studies can also consider studies comparing the effects of internal audit variables comparing sectors such as banking and insurance.

Declaration

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