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AN EVALUATION OF CORPORATE GOVERNANCE IN THE BANKING INDUSRTY OF SIERRA LEONE
CASE STUDY: ROKEL COMMERCIAL BANK (RCBANK) AND UNITED BANK FOR AFRICA (UBA).

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ABSTRACT: The aim of this paper is to critically evaluate the effects of good governance in the banking industry of Sierra Leone. This implies a careful examination, assessment, and analyzes of the role of corporate governance to the overall performance of banks in Sierra Leone.

This paper, additionally examines the corporate governance practices in two banking institutions in the country, and the study have shown the existence of greater awareness of corporate governance practices. It is hoped that the findings relating to our sample size can be used as a purveyor to draw inferences on the banking industry in our jurisdiction.

The paper has further illustrated the need to strengthen these practices because of the special nature of the banking industry in economic management and the diversity of stakeholder expectations. The empirical findings of this study are glaringly consistent with the guidelines developed by capital markets' prudential guidelines issued by the central bank. The findings also fall in line with practices recommended by other jurisdictions outside of Sierra Leone like the Basel Committee on Banking Supervision, the guidelines by the Commonwealth association for corporate governance and the organization for economic cooperation and development of the United Nation.

KEYWORDS: Capital Structure**,** Risk**,** Fiduciary**,** Compensation**,** Pay-performance

1. INTRODUCTION

Sierra Leone is a low-income post-conflict country located in coastal West Africa with a population of 7.56 million inhabitants (2015 Census) [1]. Urbanization has increased significantly in recent decades, with the share of the population living in urban areas doubling from 21 percent in 1967 to 40 percent in 2015.

Sierra Leone has a fairly liberalized financial system. Interest rates and exchange rates are market-determined, and there are no selective credit controls; and despite the fact that the largest commercial bank is state-owned, the activities of the banking system are not government-dominated.

The financial sector in Sierra Leone is one of the shallowest in the region, and has been declining. Credit to the private sector declined from 7.5 percent of GDP in 2011 to 5.8 in 2016 and to 5.1 in 2017. The major driver of this has been increased lending from the banking sector to the central government, which increased from 5.5 percent in 2011 to 16.18 in 2016 and 17.6 percent in 2017.

The banking sector is dominated by commercial banks and includes 14 commercial banks; 17 community banks; 59 financial services associations (FSA); 13 Micro Finance Institutions (MFIs) of which 2 are deposit taking and 11 credit only; and three mobile money operators.

The commercial banking sector accounts for 99 percent of all financial sector assets. There are 11 foreign banks, two state owned banks, and one domestic bank. Total assets of the commercial banking sector are Le5.29trillion (2018), and accounts for over 99% of the assets in the financial system. The 11 foreign banks account for more than 60% of the industry's total assets (2018).

The Capital Adequacy Ratio (CAR) for the banking system increased from 30.7 percent to 34.1 percent in 2017, indicating that the system has adequate buffers in the case of losses. Asset quality has also improved in recent years, although the absolute level remains problematic. The level of non-performing loans (NPLs) peaked at 33.4 percent at end 2014 and declined to 23 percent at end-2016 and 18 percent at end-2017. Profitability has also improved, with return on assets (ROA) increasing from 2.9 percent at end-2016 to 5.3 percent at end-2017 and return on equity (ROE) increasing from 22.3 percent at end-2016 to 25.6 percent at end-2017.

Problem Statement

Looking at Sierra Leone banking sector, there are several factors that could account for the overall poor performance of banks, which among other things includes poor governance framework. Therefore, in an effort to unravel these problems, an evaluation of corporate governance in the banking sector of Sierra Leone is of ultimate significance.

This study seeks to clearly address the gaps within the corporate governance structures of few selected banks in Sierra Leone. From a holistic point of view, the study also evaluates the efficacy of corporate governance on the overall performance of banks. Thus, by helping them achieve stakeholder objectives.

This suggests that banks play an active role in the intermediation of savings and investment, as well as in servicing the economic agents with an efficient payment system (Darmadi, 2011) [2].

Over the years, we have witnessed the sudden rise and decline of banks in Sierra Leone, which made the evaluation of governance framework imperative. Akong (2017) argues that the numerous cases of corporate failures are an indictment on the existing corporate governance structures [3].

Objectives of the Study

The prime aim of this study is to critically evaluate the effects of good governance in the banking industry of Sierra Leone. This implies a careful examination, assessment, and analyzes of the role of corporate governance to the overall performance of banks in Sierra Leone.

It also investigates the impact of corporate governance on worker's performance and their behaviors within the banking environment.

Finally, this study also evaluates the relevance of corporate governance theories in modern organizations.

2. LITERATURE REVIEW

Theoretical Review

The theoretical framework is any empirical or quasi-empirical theory of special and/or psychological process at a variety of levels that can be applied as 'lens' to the understanding of the phenomenon" (Creswell, 2013). Hence, the theoretical framework brings out the rationale for conducting a study. With regards to corporate governance, there is always the issue of conflicting intentions between managers and shareholders (Delpiano & Chin-Loy, 2014) [4]. Different theories have therefore been propounded in this regard, all aimed at explaining the corporate governance practice, in an attempt to highlight the objective of the firm and how it should respond to its different obligations. These include the stewardship theory, the managerialism theory, the agency theory, the stakeholder theory, the resource dependence theory, and the institutional theory. The theories are briefly discussed below.

The Stewardship Theory: According to the stewardship theory, managerial opportunism is not relevant (Tirore, 2015). This is in contrast to the agency theory. The implication is that, whether management seeks to fulfil their own interest or not is not a cardinal concern. Their main objective is to maximize the firm's performance since that communicates the success and achievements of management. The unique feature of the stewardship theory is that it replaces the lack of trust to which the agency theory refers to as respect for authority and inclination to ethical behaviour. Hence, the stewardship theory considers the board of directors, leadership and other significant players of the board as critical in ensuring the effect on corporate governance (Zingales, 2017). In view of the prior studies, it is evident that governance mechanism seeks to protect the interest of all stakeholders of a firm. Lately, there have been changes in regulatory structures in relation to corporate governance and thus directors are being held responsible for the success and failures of firms they control (Wagner, 2011). The discussion on corporate governance usually focusses on boards since they are mostly responsible for all the core decisions, such as changing the corporation bye laws, issuing of shares, declaring of dividends, acquisitions, etc. The board of director is the "apex" of the controlling system in an organization and is there to monitor the activities of the top management in order to ensure that the interest of the shareholders is well-protected (Shil, 2009) [5].

The Managerialism Theory: The concept of the Managerialism Theory came about as a result of studies conducted by Black (2008) on shareholder activism and corporate governance practices in the United States. "Managerialism has been defined as the pursuit of GOALS by managers other than PROFIT MAXIMIZATION" (Brav, Jiang, & Thomas, 2008). Bebchuk and Weisbach (2009), suggested that "managerialism refers to the aim of making management the driving force of the competitively successful society by providing leadership through the transformation of culture". "Managers should be free to develop corporate plans which identify specific objectives and targets, incentives and constraints in order to focus on the essential of efficiency and effectiveness" (Delpiano & Chin-Loy, 2014) [6]. MacNeil (2010) argued that while managers were responsible for improvements in methods of production, their actions had an influence beyond the sphere of their firm's operations, leading to a more "managerial" economy. "Managerialism stresses the accountability of individual managers and management techniques and this is reflected in a greater devolution of managerial responsibility to junior and middle level managers" (Davis, 2012) [7].

The Agency Theory: The Agency Theory, which seeks to expound the inter-relationship between the "Principal" and the "Agent" within the corporate setting, which originally originated from the neo-classical theory of the firm, whereby the aim is to increase economic efficiency as a means of increasing shareholder wealth. As shareholders are the providers of firm capital, they are also the owners and as a result must bear the risk of failure. Eisenhardt (2008) puts it that the principal and the agent may prefer different actions because of the different attitudes toward risk [8]. Thus, the basis of corporate governance starts from the principal-agent theory emanating from the classical theory in the modern cooperation and private property by Tirore (2015) [9]. According to this theory, the fundamental agency problem, exist due to separation of ownership and control of modern firms. Thus, tend to increase the power of professional managers and leaves them free to pursue their own aims and serve their own interest at the expense of shareholders

The Stakeholders Theory: The stakeholder theory (Davis, 2012), suggests a more long-term approach, whereby the firm does not only attempt to increase shareholder value, but also stakeholder value. It explains the fact that stakeholders of an organization include creditors, customers, employees, banks, governments, and society at large and that these groups also have interest in the operations of a firm. It is the belief that each stakeholder group "contributes to the success of the corporation, and without their contributions, there would be no profit for the shareholders" (Zingales, 2017). In view of this, the stakeholder theory stipulates that firms needs to pay special attention to the various stakeholder groups (OECD, 2014) [10]. Expanding the spectrum of interested parties, the stakeholder theory specifies that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each constituency receives some degree of satisfaction (Kandel, Massa, & Simonov, 2011) [11]. Thus, the representation of all these stakeholders on board is deemed fit for effective corporate governance. The stakeholder theory therefore appears better in explaining the role of corporate governance than the shareholder theories by highlighting the various constituents of the firm. Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders.

Conclusion

With close inspection of the above theoretical literature reviews, one could conclude that the study of corporate governance is relevant to our modern society. The Stewardship theory emphases that managers personal interest or gain is not the prime priority of the firm but instead to maximize the firm's performance as that indicates the success of the firm. In contrast to the 'Agency theory` managers are at the apex of administration to control and manage the day-to-day affairs of the firm and hence they will be held responsible if there is any lapse.

Finally, the stakeholder theory holds the views that all groups within the society are significant towards the overall objectives of the firm. Therefore, the firm should not only concentrate on seeking the interest of shareholders but also to seek the interest of all stakeholders.

Empirical Review

Ranti, (2011) undertook a study on "corporate governance and the financial performance of listed banks in Nigeria" [12]. The purpose of the study was to "examine the relationships that exist between corporate governance mechanisms and the financial performance among Nigerian consolidated banks, and to further find out if there was any significant relationship between the level of corporate governance disclosure index among Nigerian banks and their performance". "The Pearson Correlation and the regression analysis were used to find out whether there is a relationship between the corporate governance variables and the performance of the listed banks". "In examining the level of corporate governance disclosures of the sampled banks, a disclosure index was developed guided by the Central Bank of Nigeria's (CBN) code of governance, and also on the basis of the papers prepared by the United Nation Secretariat for the nineteenth session of the ISAR (International Standards of Accounting and Reporting)"."The study therefore observed that a negative but significant relationship exists between board size, board composition, and the financial performance of the banks, while a positive and significant relationship was also noticed between directors' equity interest, level of governance disclosure, and performance". Again, the t-test result indicated that while a significant difference was observed in the profitability of the healthy and rescued banks, no difference was seen in the profitability of banks with foreign directors and that of banks without foreign directors". "The study therefore concluded that, there was no uniformity in the disclosure of corporate governance practices by the banks in Nigeria" [13].

A study was conducted by Marashdeh (2014), on "the effect of corporate governance on the firm performance of Jordanian organizations. According to Marashdeh (2014), the majority of research concerning corporate governance and its effect on firm performance has been undertaken in developed countries and markets, particularly, the United Kingdom and the United States of America, but relatively little evidence provided in the Middle East, specifically Jordan. Marashdeh (2014) [14] investigated the effects of corporate governance on the firm performance of the Jordanian industrial and services companies, from the period 2000 to 2010. The study employed primarily the agency theory to investigate the relationship between corporate governance and firm performance. The multiple regression panel data analysis was the main tool deployed in the study. The statistical method used to test the impact of corporate governance on firm performance was the Generalized Least Square (GLS) Random Effects Model. The study was based on three sets of data: a sample of 115 firms listed on the Amman Stock Exchange, corporate governance data collected from the Osiris database, and data gathered through the annual reports of the listed firms.

The empirical investigations according to Marashdeh (2014), revealed a set of mixed results. The findings failed to reveal any significant impact of board size on firm performance. However, the chief executive officer (CEO) duality seems to have a positive effect on firm performance, indicating that the Jordanian firms performed better where the chairman and CEO roles are combined in a single individual. The study further revealed that the non-executive directors (NEDs) have a negative impact on firm performance, which is inconsistent with the monitoring hypothesis of the agency theory, which holds that the NEDs play an indispensable role on the board as a source of experience, monitoring services, reputation and expert knowledge with the likelihood to improve firm performance. Mbalwa, Kombo, Chepkoech, Koech, and Shavulimbo (2014) conducted research on “the effect of corporate governance on the performance of sugar manufacturing firms in Western Kenya” [15]. “Their study sought to determine the effect of corporate governance on the organizational performance of sugar manufacturing firms in western Kenya”. “The research employed the correlational research survey design”. “The population of the study consist of eleven sugar manufacturing firms in western Kenya”. “The convenience sampling technique was used to analyse the collected data”. “Primary data was collected using the structured self-administered questionnaires”. “Descriptive and inferential statistics were used to summarize the collected data”. “The Pearson’s Correlation Coefficient was used to determine the relationship between corporate governance and the organizational performance of the sugar manufacturing companies”.

“The multiple regression analysis was further used to determine the effect of corporate governance on the organizational -performance of the sugar manufacturing firms”. “The findings of the study revealed that, the corporate governance practices were positively related to the organizational performance of the sugar manufacturing companies located at the western province of Kenya, although not very strongly ($p=0.001<0.05$)”. “The implication is that, the corporate governance practices which involved the board characteristics, board size, top management characteristics, and shareholders’ communication policy and continuous disclosure had an impact on the organizational performance of the sugar manufacturing companies in western Kenya”. In Ghana, Dedzo (2015) [16] undertook a study on the “composition of the board of directors and its effect on service delivery and firm performance in the Ghanaian banking industry”. “The study additionally, explored how service delivery and firm performance differ with respect to ownership identities”. “The cross-sectional panel survey was purposively drawn to sample fourteen banking firms in Ghana, over the period of 2008 to 2013". "Firm performance and service delivery was measured using the Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Fees Operating Income (FEEOP)". "Spearman findings indicated some validity and support for the relevance of corporate governance to firm performance in the Ghanaian banking industry".

"Using the GMM, fixed and random effect econometric models, board size and the presence of independent non-executive directors were observed to have significant positive effects, whilst board member political attachment was found to have a profound significant adverse influence on firm performance". "The results whilst further suggesting that female members and foreign national presence on one hand promotes the effectiveness of the firms, proved inconclusive on whether age, business and economic competence other than experience and shill diversity promotes performance". "Meanwhile, no significant differences were observed between ownership identity and firm performance". In Ghana again, Tutu (2017) [17], did a study on "the effects of corporate governance on the performance of insurance companies in Ghana". "The main aim of the study was to determine the effects of corporate governance on the efficiency and productivity performance of insurance firms in Ghana". "The study employed a panel data of fourteen (14) life insurers and fifteen (15) non-life insurers to assess the efficiency and productivity of insurers in Ghana between the years 2005 to 2014. "Apart from the static efficiency measure, the study assessed the dynamic productivity of the insurance firms by using the Cost Malmquist Index to incorporate the time effect resulting in efficiency changes over time"[18]. "The study equally compared the efficiency and productivity of life insurers and non-life insurers and also examined the effect of corporate governance mechanisms on insurers' efficiency and productivity".

"The study found out that, there has been an average of a 3% cost productivity growth in the Ghanaian insurance industry". "Productivity growth according to the results peaked between 2008 and 2009 at 43% cost productivity growth". This productivity growth was driven mainly by managerial efficiency rather than technological growth". "The study also found out that life insurers were more productive than the non-life insurers, which can be attributed to some form of economies of scale that they were enjoying". "The study revealed that corporate governance affected both insurance efficiency and the cost productivity of insurance firms in Ghana". "Whereas a larger board size was found to improve both the cost and productivity efficiencies, a large proportion of directors with an expertise in finance negatively impacted on the cost and productivity efficiencies of the insurance industry". "Again, a highly independent board reduces cost efficiency, but not cost productivity".

RESEARCH METHODOLOGY

Research design

The study adopts a descriptive sample survey of two commercial banks (one local and one foreign) in Sierra Leone. The descriptive survey approach is useful in locating and obtaining secondary data for a study and describes issues as they should be. Gay (1981) defines a survey as "an attempt to collect data from members of a population in order to determine the current status of that population, taking account of one or more variables". In his view, a descriptive study determines and reports the way things are and usually involves assessing attitudes and opinions towards individuals in a population, an organization and the attendant procedures.

The population of interest revolves around the senior managers of the respective commercial banks under review, Rokel Commercial Bank (RCB) and the United Bank of Africa (UBA) in Sierra Leone. Information from the Central Bank monthly economic bulletin indicates that there are commercial banks in Sierra Leone with multiple branches scattered all over the country, and the two banks have a wide spread to support the assertion.

The stratified random sampling technique was adopted in order to give all the banks an equal chance of selection, but based on the respective strata. Strata were identified from the various classifications of banks by the central banks. By assigning random numbers to the banks in each category, a list of the sample was made upon which the researcher based his study. The respondents are senior bank officers who are fairly knowledgeable on the bank operations

Data Collection

Data Collection Instruments

The researcher collected data by the use of questionnaires, which contained both open-ended and close-ended questions.

i) These were administered to the managers, who were expected to provide information on corporate governance and strategies, as well as providing any other necessary information for the study. The researcher used the drop- and -pick method of administering the questionnaires.

ii) The use of questionnaires was preferred for this study because it is the typical method through which descriptive data is collected (Gay 1981).

DATA ANALYSIS AND PRESENTATION

Descriptive Statistics

This section gives a summary of the descriptive statistics relating to the surveyed banks. A total of 35 completed questionnaires were obtained in the study survey. All the surveyed institution considered themselves as commercial banks as licensed under the Banking Act of Sierra Leone.

Years of Operation

Table 1 below gives a summary of the number of years in which the surveyed banks have been in operation in the country.

Table 1: Years in Operation

Institution	Duration	Status
Rokel Commercial Bank	22 years	Local
United Bank for Africa	13 years	Foreign

The results show that the two banks have being in operation for more than 10 years. In terms of corporate existence in Sierra Leone, Rokel Commercial Bank which started as Barclays Bank has a cumulative existence of nearly 100 years in the country. It is currently being managed by purely Sierra Leonean nationals.

Range of Services

Table 2 below gives a summary of the range of services that the surveyed institutions offered their customers.

Table 2: Range of Services

Services	Rokel Commercial Bank	United Bank for Africa
Deposit Mobilization	√	√
Trade Finance	√	√
Small – Medium Enterprise Loans	√	
Savings and Current Accounts	√	√
Internet banking	√	√
Corporate Banking Services		√
Custodial services	√	
Mobile money services	√	
ATM Services	√	√
Total Services	**8**	**6**

Table 2 above shows the range of services provided by the surveyed banks. Deposit mobilization, trade finance services, savings and current accounts, internet banking, and ATM Services are common to both banks. However, RCB offers other services unique to itself, and includes Mobile Money Services, Custodian services like jewelries and other classified documents of customers, as well as SME loans. United Bank for Africa's uniqueness can be found in Corporate Banking Services.

Management and the Board

This section gives a summary of responses relating to bank management and the involvement of shareholders in management and in guiding the strategy, values and performance of the surveyed banks.

Number of Directors

Table 3 below gives a summary of the numbers of members of the Boards of Directors of the surveyed banks

Table 3: Total number of Board of Directors by gender

Institution	Male	Female	Total
Rokel Commercial Bank	7	2	9
United Bank for Africa	11	4	15
Total	**18**	**6**	**24**

The two banks have varying numbers of board membership, with a male composition of 75% and female quota of 25%. In the case of the foreign owned bank, the board meets every month whilst the locally owned bank board meets as and when necessary. With the responsibility of corporate governance, the board of the local bank portends a significant risk as events may easily overwhelm them before they know it. It also undermines their effectiveness as their response time to serious issues might graduate to firefighting strategies/approach.

Methods of Appointing the Board

Table 4 below gives a summary of the methods used to appoint the boards of directors at the surveyed banks.

Table 4: Methods of Appointing the Board

Method	Rokel Commercial Bank	United Bank for Africa
Vote of Majority Shareholders/government	√	
Vote of all Shareholders		√

It is observed from the table above that the Board of Directors are appointed by vote of the majority shareholders. Since RCB is significantly government owned, the board members are appointed by the Government of Sierra Leone, whilst the UBA board members are appointed in an Annual General Meeting (AGM) of all shareholders. The implication here is that the latter is more attuned to appointing people with industry and professional backgrounds, which gives leverage to having control over the board and management actions.

Board Composition by Profession

Table 5 below gives a summary of the professional qualifications of the board members of the surveyed banks.

Table 5: Composition of Board by Profession

Profession	RCB	UBA
Lawyers	1	3
Banking and Finance Specialists	3	5
Certified Public Accountants	1	2
Engineers	2	1
Economists	2	4
TOTAL	**9**	**15**

The above results show significant representation from the banking and finance specialisms sectors, and a good spread of economists. The other professional groups, though without banking industry experience can be of help in other intervention areas the banks may be interested in for their future expansion.

Board Effectiveness

Respondents were asked to rate the effectiveness of their board of directors in leadership, integrity, enterprise, judgment and decision-making. The rating scale had four levels: [1] very effective. [2] not very effective, [3] effective, and [4] below average.

The results show that respondents considered their boards of directors most effective in integrity and leadership and not very effective in judgment.

Methods of Communicating Board Decisions

Respondents were asked to indicate the methods used by their board of directors to communicate deliberations and/or the decisions of the board. The results are summarized in table 6 below.

Table 6: Methods of Communicating Board Deliberations

Method/Medium	RCB	UBA
Newsletters	√	√
Press	√	√
Posted letters	√	√
Board meetings	√	√
Shareholders who are also board members	√	√
Management Memos and Circulars	√	√

The results show that the two banks use all options of communication channels to covey policy decisions to stakeholders connected with the bank. These policy decisions and other issues are escalated through senior management of the bank to various sections and departments.

Management Training

Table 7 below summarizes banks management training and induction programmes.

Training Programme	RCB	UBA
Induction for New Board Members	14	15
Continuous member skills development	13	12
Management training programmes	21	84

The training portfolio of the two banks are quite extensive and with a high degree of regularity. Within the last five years, the UBA had 15 induction training for new board members, while RCB had 14 sessions. Of the two banks, the result show that 84% of time was devoted to management-training programmes, but they are almost at par between board members and other staff skill development programmes.

Succession Planning

The two banks have management succession plans.

Table 8 below gives a summary of the type of plans at different banks.

Table 8: Succession Plan

Type of Plan	RCB	UBA
Graduate Trainee Program	√	√
Management Trainee Program	√ √	√ √
Succession Planning Program	√	√

The results show that in most cases, the succession plan is hinged on the management-training program.

Shareholders and Stakeholders

This section summarizes responses on the relationships between the shareholders and the board of directors. The numbers of individual shareholders range from a minimum of one to a maximum of 57,000 for the foreign owned bank. Institutional shareholders range from one to nine. Respondents indicated that potential board members were seriously screened before appointment. Most respondents indicated that the board was 100% accountable to the shareholders. At UBA, shareholders also have the power to change the composition of the board of directors.

Procedures for Ensuring Accountability

Respondents were asked to indicate the procedures that were in place to ensure accountability to shareholders. The results are summarized in table 4.3.1 below.

Table 9: Accountability Procedures

Procedure	RCB	UBA
Monitoring by management	8	32
Regular reporting	2	8
Internal Auditing and Controls	6	24
Central Bank Supervision	9	36
Total	25	100

The two banks have robust accountability framework to ensure public expectation gaps are significantly narrowed. The UBA bank used monitoring (32%), internal auditing and controls (24%) and regular reporting (8%). Respondents further indicated that they believed shareholders were either satisfied or very satisfied with these procedures.

Stakeholders

Table 10 below summarizes the internal and external stakeholders of the surveyed banks.

Table 10: Internal and External Stakeholders

Internal Stakeholders	RCB	UBA
Staff	√	√
Suppliers	√	√
Customers and other contracted parties	√	√
External Stakeholders –Community	√	√
Government and community	√	√

Compliance with Laws, Regulations and Standards

Both banks have in place, Measures to Ensure Compliance with Laws, Regulations, Governance Practices, Accounting and Auditing Standards. Respondents were asked to list at least three such measures that their banks were using.

The results are summarized below.

Table 11: Measures to Ensure Compliance with Laws, Regulations and Practices

Measures	RCB	UBA
Membership of Professional Bodies	√	√
Transparency Index Listings	√	√
Subscribing to certain pieces of legislation	√	√
Risk based policies	√	√
Inviting external auditors and Central Bank Audit	√	√
Internal compliance department	√	√

Both banks invite external and Central Bank auditors as a measure to ensure compliance with laws, regulations and other practices. The banks are also registered with transparency listing institutions to subscribe to global rankings. In addition, the two banks have internal risk-based policies guiding their compliance frameworks, including internal compliance departments to monitor operational issues relating to daily expenditures and banking operations.

Management of Corporate Risk and Social Responsibility

This section gives a summary of the key risk areas that have been identified by the board, key performance indicators and circumstances under which banks have sought the help of consultants.

Risk Areas

Table 12 below summarizes the risk areas that have been identified by the boards of directors of the surveyed banks.

Table 12: Key Risk Areas Identified

Risk	RCB	UBA
Terrorism	√	√
Money Laundering	√	√
Lending to certain sectors of the economy	√	√
Operational Interest rate risks	√	√

Among the above categories of risk, the most considered risk is that of lending to certain sectors of the economy, mostly the small business sector whose failure rate are often very high.

4.5.2 Key Performance Indicators

Table 13: summarizes the key performance indicators the surveyed banks have in place.

Table 13: Key Performance Indicators

Indicator	RCB	UBA
Regulatory framework based on Money Laundering	√	√
Profitability	√	√
Staff performance appraisal results	√	√

The key performance indicator of the surveyed banks is profitability, as it forms the basis of growth potentials.

Circumstances where Bank Used Consultants

Table 14: Circumstances where Banks Uses Consultants

Case	RCB	UBA
Network Expansion	√	√
Re – branding	√	√
Taxation	√	√
Finding strategic partners	√	√
Employee Opinion Survey	√	√
In cases of a crisis in sector to which the bank lends	√	√

The results show that the two banks use external consultants to handle matters relating to taxation. Banks also used consultants for network expansion, to conduct employee opinion surveys and in cases where there was a crisis in a sector to which the bank had excessively lent.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary and Conclusion

The study's main objectives are to assess the nature of and characteristics of corporate governance systems of commercial banks in Sierra Leone, and to assess the prevalence and extent of use of selected corporate governance practices in the banks. To achieve these objectives, we embarked on a survey of commercial banks operating in the country. A questionnaire of 35 was administered to two major banks, Rokel Commercial Bank being a Sierra Leonean entity and the United Bank for Africa, a foreign owned bank. The response rate of 100% is acknowledged from the two banks. The major finding of the study is that the central system for corporate governance responsibility in banks lies with the board of directors. Therefore, the manner of appointment to the board, the board composition and the board committees plays a vital role in the corporate governance structure. This compares well with the Basel Committee, which recognizes that the primary responsibility for good corporate governance rests with the board of directors and senior management of banks. This survey found that the boards in the two banks pursues sound corporate governance practices with the following responsibilities:

- Reviewing and guiding corporate strategies, development of major plans of action, risk policy, annual budgets and business plans; setting performance objectives and targets; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures;
- Selecting, compensating, monitoring and, where necessary, replacing key executives and management of succession planning.
- Reviewing key executive and board remuneration, and ensuring a formal and transparent board nomination process,
- Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.
- Overseeing the process of disclosure and communications.

This report confirms that the boards of directors are involved in determining purposes and values, and strategies of their banks in all cases, and are sometimes involved in implementation of the strategies. Management level staff, the Board and CEO in the two banks surveyed share the responsibility of implementing procedures and values. In both organizations, such responsibilities are left for departmental heads. The responsibility for monitoring and evaluation of bank's policies, strategies and performance is shared between Management Level Staff, the Board and the CEO. In both cases, bank viability and sustainability are the responsibility of the board and the CEO. In most cases, banks undertake viability and sustainability reviews on quarterly basis.

The Basel Committee on Banking Supervision (1999) considers corporate governance perspectives to include how banks set their objectives, run day to day operations, consider the interest of recognized stakeholders and align corporate activities and behaviour with the expectations of safe and sound operations as well as protect the interests of depositors. The results of the survey, which indicate that the boards of directors are involved in setting the values and objective of the bank, are in line with the suggestions of the Basel Committee. The finding that the responsibility for creating procedures and values is shared between the board, the CEO and senior managers is however in contrast with Crespi et. al., (2002) [19] which views corporate governance of banks as the methods that owners use to induce management to implement value adding strategies. Given the above results, it could be concluded that corporate governance within the two commercial banks involves the board of directors setting up the strategies, values and procedures of a bank and ensuring that there is some form of measures to guide the implementation of such strategies and also to ensure that the bank complies with laws, regulations and generally accepted governance practices. From the result obtained, we can generalize that there is a high use/prevalence of corporate governance practices within the banking sector in Sierra Leone.

The practices most commonly embraced emanate from the following:

- Banks own self-regulatory mechanisms,
- Banking Act requirements,
- Prudential guidelines from the Central Bank,
- Membership to professional bodies

From this survey, it can be inferred that there is a general awareness of the importance of corporate governance in banks and that there have been great advances in the financial sector in complying with the basic corporate governance framework. As outlined earlier in this paper, the banks represent a special place on corporate governance because of their role in the economy, and also the nature and diversity of the stakeholders especially the creditors and the depositors. While the responsibility of corporate governance rests with the board and management, it is not evident that all the diverse stakeholders are represented in these boards.

Recommendations

An important policy implication is to bridge the gap that may exist on board representation of professional groups to enhance sound regulatory governance. The quality of bank supervision and prudential guidelines needs to be carefully crafted. This sound regulatory governance, which encompasses the governance practices of institutions that have an oversight role in the financial system not entirely rest with the central bank alone. My chat with a few senior officials of the bank supervision team at the Central Bank bemoans that not all their prudential guidelines have been applied or adhered to in their entirety by commercial banks.

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