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Leadership Behaviour And Loan Default Management In The Banking Sector of Ghana : The Moderating Role of Regulatory Governance

An Empirical paper

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Presentation Outline

- Introduction
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- Study Hypothesis
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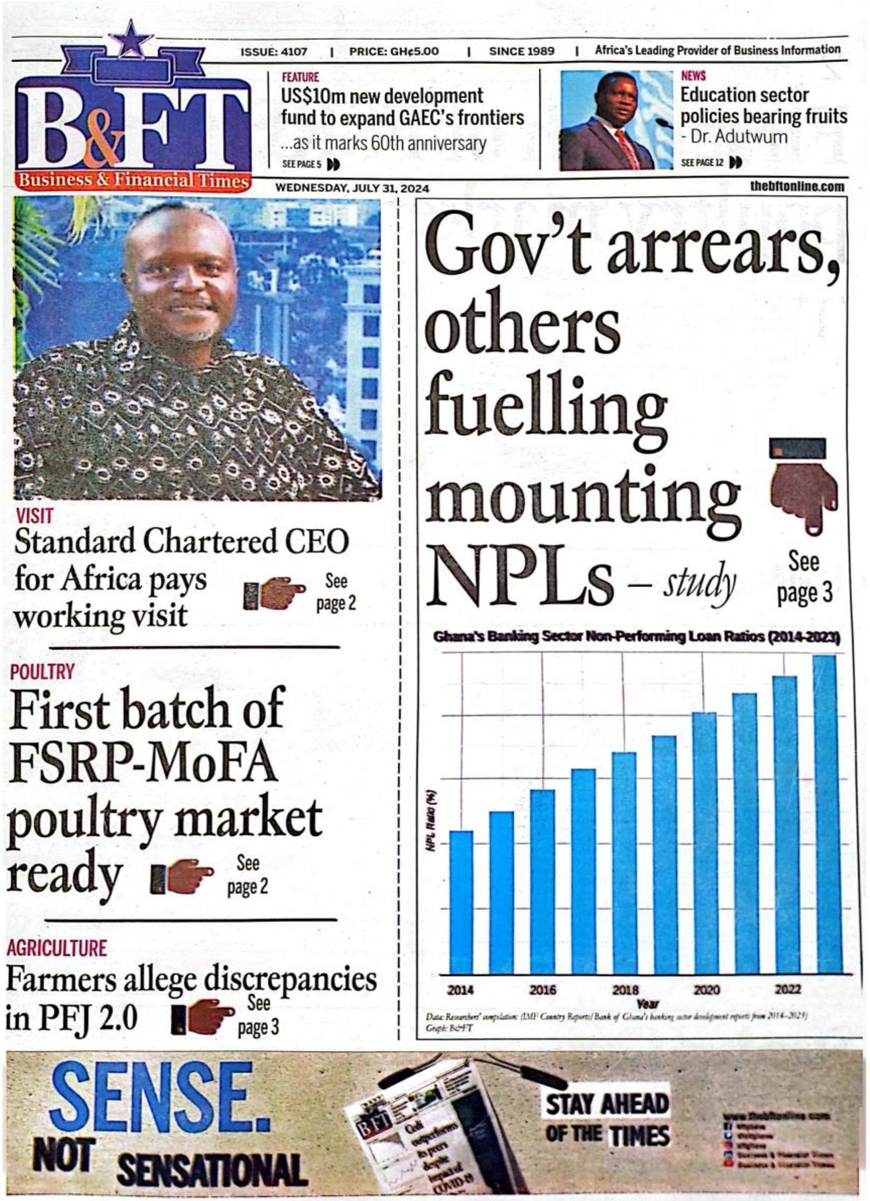
Introduction

- In many emerging economies, financial institutions like banks are considered very crucial to the development of these countries (Gorton & Kahn, 2000; Jiang et al., 2018)

- Credit risks contribute more to the failure of many banks compared to operational and strategic risks. The reason for banks high credit risks emanates from issues of credit problems. Banks are largely into lending and the issues of default in loans are bound to occur (Glennon & Nigro, 2005, p.14).

- Since the execution of banks credit risk management systems are largely based on individual's appraisal of financial risks and the execution of apt risk management systems, we propose leadership behavior to have an influence of the effective management of loan default in the banking sector (Qi & Yang, 2009).

Introduction..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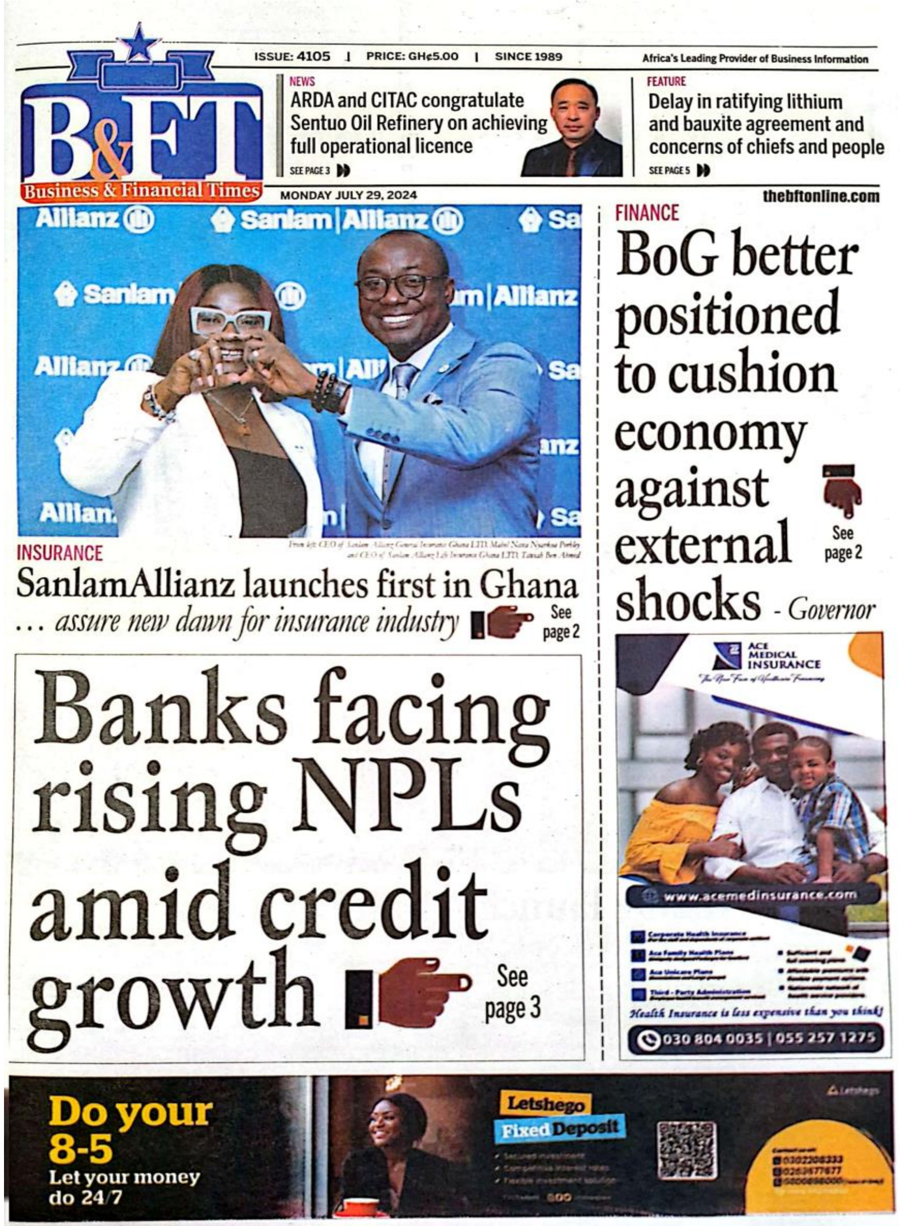
SENSE. NOT SENSATIONAL
STAY AHEAD OF THE TIMES

Introduction..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Ghana's banking sector non-performing loan ratios for the period 2014-2023

Year End	%
2014	11.00
2015	14.70
2016	17.60
2017	22.70
2018	18.20
2019	14.70
2020	15.70
2021	15.20
2022	15.00
2023	24.90

Average 16.97%

Source : Researchers' Compilation : (IMF Country reports/ Bank of Ghana's banking sector development reports from 2014-2023

Introduction..

- The principal concern of this study is to ascertain to what extent leadership behavior influence loan default management and what role regulatory governance play in the relationship between leadership behavior and loan default management.

- The study adopted McGregor's theories X and Y in examining the leadership behaviors that affect loan default management in the banking sector of Ghana. This theory is used to explain the motivational factors that influence employee behavior. In this study, employees are seen to be undertaking leadership in managing loan default.

Theories Applied

- Theory Y represents the usual approaches leaders or managers in the firm, which has often yielded poor outcomes, such as high loan default rates in banks (Sager, 2008).
- Theory X is seen as an alternative approach that managers can use to develop other functional outcomes, in this case, the effective management of loan default cases in the banking sector of Ghana.
- The management of employee behavior is captured as leadership behavior in this study. That are autocratic leadership behavior, Laissez-faire leadership, and transactional leadership behavior.
- McGregor's theories X and Y relate to the psychological contracting in modern times where there is the appreciation of theory X leadership while appraising the constructive benefits of undertaking theory Y kind of leadership for the effective attainment of firm-specific outcomes (Russ, 2013).

Theories Applied..

- Theory X can be considered as an authoritarian style of leading people with an emphasis on "productivity, on the concept of a fair day's work, on the evils of feather-bedding and restriction of output, on rewards for performance" (Kopelman et al., 2012, p.450).

- Since work is very detailed and time sensitive, a hands-on manager (Type X) is required to ensure staff stays on top of the workload.

- According to Theory X, employees generally tend to be reluctant by nature to fulfilling obligations to them (Russ, 2011). Employees will always find excuses for meeting firm-specific obligations; they may naturally not be willing to expend much effort on the job.

Theories Applied

- This strict compliance with working regulations also greatly increases a firm's compliance with regulatory governance. Theory X requires that employees deliberate avoidance of work, which is a counter-productive working behavior that should be identified and dealt with in the firm (Carson, 2005).

- Theory Y, on the other hand, assumes that individuals will naturally exercise self-direction and self-control in attaining firms' objectives to the extent that they become committed to them (Kopelman et al., 2008, p. 261).

- This forms the basis for selecting the Laissez-faire leadership style in this study. Theory Y proposes that employees are likely to be more productive when they are given more trust and responsibility rather than forcing employees to undertake tasks (Sager, 2008).

Theories Applied

- Similarly, theory Y proposes that employees wish to perform well on the job and not slack around. The belief is that getting employment and being recognized for hard work alone is enough to drive employee motivation.

- In summary, leadership has a role to play in the motivation of employees to achieve desired results. This suggests that the management of loan default cases may require more the role of leaders in adopting a rigid style (like autocratic or transactional leadership style) or the development of a more relaxed style (Laissez-faire leadership style).

- The researchers of this study argue that regulatory governance has a role in influencing the relationship between leadership behavior and loan default management. This led to the adoption of the leadership contingency model theory developed by Fred Fiedler (Mitchell et al., 1970). The leadership contingency model theory proposes that situational factors can affect a leader's ability to attain firm goals (Sager, 2008).

Study Hypothesis

H_1: *Autocratic leadership behavior has a positive impact on loan default management*

H_2: *Laissez-faire leadership behavior has a positive impact on loan default management.*

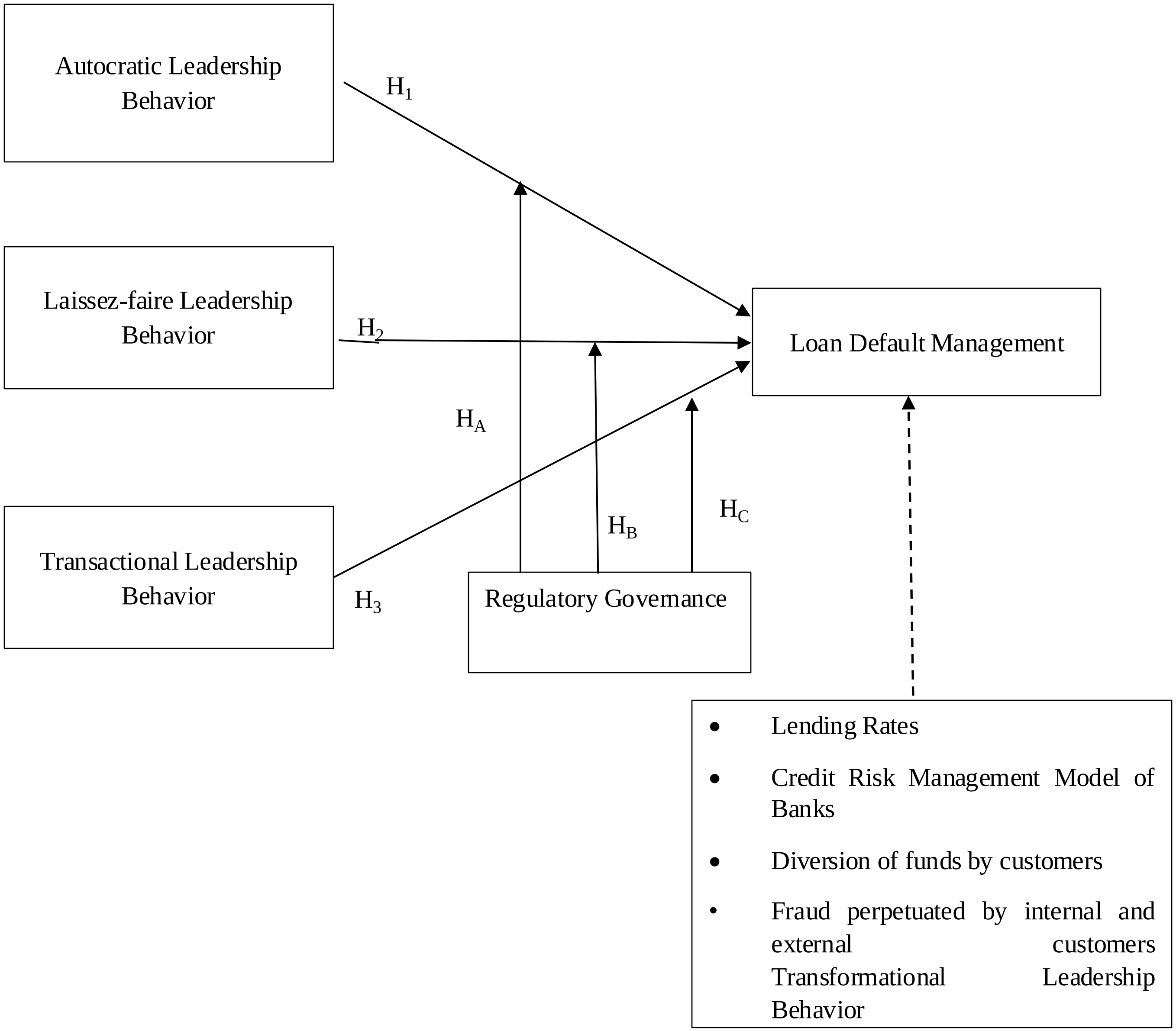
H_3: *Transactional leadership behavior has a positive impact on loan default management.*

H_{4a}: *The negative relationship between autocratic leadership behavior and loan default management will be weakened under good regulatory governance than under bad regulatory governance.*

H_{4b}: *The positive relationship between laissez-faire leadership behavior and loan default management will be high under good regulatory governance than under bad regulatory governance.*

H_{4c}: *The positive relationship between transactional leadership behavior and loan default management will be high under good regulatory governance than under bad regulatory governance.*

Conceptual Model



Methodology

This study uses the sequential explanatory research design that helps triangulate. The strategy allows significance to be given to either or both data sets (Terrell, 2012, p.264). In this study, the first phase involved collecting and analyzing data questionnaires from all officers in the credit cycle like recovery officers, credit officers and risk officers in all 23 tier 1 commercial banks

In contrast, the qualitative involves the use of selected members of the respondents from the administered questionnaires. The case study was conducted mainly to understand the view of key informants using a structured understanding of contextual issues on the influence of leadership behavior on loan default management in this study.

Summary of Results

Table : Linear regression

Values	Loan Default Management							
	Model 1		Model 2		Model 3		Model 4	
	B	t-values	b	t-values	b	t-values	B	t-values
Control Variables								
Constant	0.794	5.965^{***}	0.812	6.091^{***}	0.807	6.020^{***}	0.822	6.112^{***}
Lending Rate	0.040	0.533	0.046	0.608	0.045	0.593	0.042	0.551
Credit Risk Management	0.011	0.229	0.013	0.253	0.015	0.296	0.014	0.28
Diversion of Funds	-0.245	-3.963^{***}	-0.221	-3.495^{**}	-0.222	-3.503^{**}	-0.211	-3.283^{**}
Fraud Perpetuated by customers	0.083	1.443	0.085	1.455	0.086	1.471	0.093	1.556
Main Effects								
Autocratic Leadership Behavior			0.043	1.507	0.044	1.534	0.060	2.016*
Laissez-Faire Leadership Behavior			-0.019	-0.663	-0.020	-0.698	-0.008	-0.261
Transactional Leadership Behavior			-0.019	-0.68	-0.017	-0.589	-0.015	-0.525
Moderator								
Regulatory governance (RR)					-0.011	-0.372	0.021	0.238
Interaction Effects								
RR x Autocratic Leadership							-0.014	-0.438
RR x Laissez-Faire Leadership							0.062	2.006^{*}
RR x Transactional Leadership							0.013	0.393
R^2	0.075		0.087		0.087		0.099	
R^2	0.075		0.012		0.000		0.012	
F value	6.209		4.134		3.624		3.012	
Degrees of freedom	4/307		7/304		8/303		11/300	

$^{\dagger}p < .10$, $^{*}p < .05$, $^{**}p < .01$, $^{***}p < .001$ (one-tailed test)
Note: Unstandardized regression coefficients were reported with t-values for each effect
Source: Authors Fieldwork (2021).

Summary of Hypothesis Tested & Outcomes

Hypothesis	Expected outcome	Empirical conclusions	Outcome
1. Autocratic leadership behavior has a positive effect on loan default management.	+	Supported	Significant
2. Laissez-Faire leadership behavior has a positive effect on loan default management.	+	Not Supported	Not Significant
3. Transactional leadership behavior has a positive effect on loan default management.	+	Not Supported	Not Significant
4. Regulatory governance positively moderate the relationship between autocratic leadership behavior and loan default management.	+	Not Supported	Not Significant
5. Regulatory governance positively moderate the relationship between Laissez-Faire leadership behavior and loan default management.	+	Supported	Significant
6. Regulatory governance positively moderate the relationship between transactional leadership behavior and loan default management.	+	Not Supported	Not Significant

Findings, Conclusions and Implications

- First, autocratic leadership behavior was found to have a positive and significant influence on loan default management. This may suggest that when leaders in the industry are bossy and orders team members around it may be effective in the management of loan default issues.
- Second, an unsupported relationship between Laissez-faire leadership behavior and loan default management in this study is an indication that banks and financial institutions should not focus on practicing this kind of leadership behavior, as it may not be effective in management of loans.
- Third, an unsupported relationship between transactional leadership and loan default management is an indication that banks and fiancial institutions should not focus on practising this kind of leadership behaviour. The results of the study has different implications.
- Fourth, a supported moderating effect was found on the relationship between Laissez-faire leadership behavior and loan default management. This result suggests that corporate governance issues like regulators having operational independence in undertaking activities may influence the relationship between Laissez-faire leadership behaviors and loan default management.

Findings, Conclusions and Implications..

- From the theory X and Y perspective, where theory X is seen as an alternative approach that can be used by managers to develop other functional outcomes, it is anticipated that leadership behaviors helps in the attainment of better loan default management outcomes within the banking sector of Ghana.

- The results of the case study reveals that the management of loan default should be a concern for everyone in the organization and not just a group of people solely dedicated to this.

- Secondly, the introduction of some interventions like the reference bureau system has helped in the reduction of customers multiple loan subscription.

- It was revealed in the study that the development of good relationships with customers helps them open up on challenges they face and often come up with new strategies to raise the funds to cater for the loans that have been taken.

Findings, Conclusions and Implications..

1. Since autocratic leadership behavior was found to significantly impact the management of loan default cases in banks, it is recommended that the loan recovery department of financial institutions should be characterized by leaders making decisions unilaterally with little input from subordinates who are not well vexed and experienced in loan management issues.

2. Since regulatory governance was found to positively moderate the relationship between loan Laissez-faire leadership behavior and loan default management, it is recommended that First, the promotion of operational independence of regulators. Second, transparency in regulatory operations at the department level. Third, the consistent application of banks rules and regulations regarding the management of loans as approved by regulatory entities.

Findings, Conclusions and Implications..

1. First, future research could explore the challenges, opportunities and strategies in with autocratic leadership behavior in more detail as it was found significantly influence loan default management. A purely qualitative approach may be used in exploring these research gaps.

2. Second, since the study did not lend support for the influence of Laissez-faire leadership behavior on loan default management, it is suggested that future research can explore investigating management control like process and output control on the relationship between this leadership behavior and loan default management. These may yield some interesting results. A similar result was also found for the relationship between transactional leadership behavior and loan default management.

3. Third, the study of leadership behavior and loan default management was investigated using the theory X and Y in investigating leadership behaviors that can influence loan default management. This study focused on theory X seen as better approach to developing better outcomes. A comparative study with a focus on the use of both theory X and theory Y is suggested for future research.

THANK YOU