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RESEARCH ARTICLE

Corporate Governance and Banks' Capital Adequacy in Gambia: The Moderating Impact of Politics

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Abstract

Bank failures and banking crises create fears and anxieties in various stakeholders; and some of remote causes of bank failures across the globe are weak/poor corporate governance structures and practices, credit risk; government recapitalization regulation; corruption and embezzlement of banks' assets; and weak legal/regulatory and political institutions. Undercapitalization is a symptom of banks' capital inadequacy to withstand financial shock. Anchored on stakeholder-institutional theory; and secondary data, and general linear model, this study investigated the moderating impact of politics on the relationship between board effectiveness, management efficiency and capital adequacy of Gambia's banking sector while controlling for financial leverage. The studied established that: the interaction of political stability and board effectiveness in risk management has significant negative effect on banks' capital adequacy in Gambia; the interaction of political stability and management efficiency in profit maximization has significant positive effect on banks' capital adequacy in Gambia; financial leverage has significant positive effect on banks' capital adequacy in Gambia; board effectiveness in risk management has significant positive effect on banks' capital adequacy in Gambia; and management efficiency in profit maximization has significant negative effect on banks' capital adequacy in Gambia. The relevance of the joint stakeholder-institutional theory was established in this study. The work recommends that all political stakeholders in Gambia should strive to stabilize the country's political system, and that the board of directors of banks in Gambia should ensure that their management teams apply prudent and best banking practices in declaring profit. This is because a positive profit should increase the capital adequacy of banks in a normal situation.

Keywords: Board effectiveness; capital adequacy; leverage; management efficiency; politics

Introduction

Background to the Study

Institutional scholars are in agreement that country institutions do matter in firm performance as well as in their ability to raise capital for their operations (Osei-Attakora, 2022; Wahua, 2017). The only divergent opinion is that the impact of national institutional variables on firms' operations and volume of capital is not generally positive across countries. This is because of the quality and level of development of the different national institutions. Some are well developed and established while others are at the developing stage. The ability of banks to raise adequate capital has been linked to strong institutional factors like political, legal and financial systems (Oima & Ojwang, 2013). The interrelationships between and among different national and firm specific internal corporate governance variables have resulted to different similar and dissimilar findings across the globe. In specific terms, Corporate governance as measured by board effectiveness and management efficiency have different nature of effects on banks' capital adequacy: while board effectiveness mostly have negative impact on banks' capital adequacy, board efficiency mostly have positive impact on banks' capital adequacy (Bakin, Acikalin, Aktas & Celik, 2015; Shaddady & Moore, 2015; Irawan & Anggono, 2015). Banks create money by granting credit facilities. The effectiveness of the Board of Directors curtails credit stock; and this reduces interest incomes and related income charges of banks. Management Teams of banks are charged with the primary responsibility of profit maximization; and this is achieved by granting loans and earning interest income and related charges (Shaddady & Moore, 2015; Workneh, 2014). Operationally (and as it is meant to be), boards of directors and management teams of banks seemingly work in divergent directions: one protects the assets and liabilities of the shareholders (Board) while the other aggressively aims at increasing multiple stakeholders' returns (management team).

Banking crises lead to catastrophic problems to employees, communities, depositors, borrowers, investors, governments, shareholders, and numerous other stakeholders in varying degrees. Bank failures and banking crises create "fears, anxieties, and loss of productivity" (Wahua, 2017; p. 5) to various stakeholders locally and internationally. Salient factors have been identified as the immediate and remote causes of bank failures across the globe; and they include: weak and poor corporate governance structures and practices (Afolabi, 2018; Debrah, 2018; Safo, 2018); credit risk or bad loans or non-performing loans (Afolabi, 2018; Cucinelli, 2015; Nyavor, 2017); government recapitalization regulation (Frimpong, 2018); corruption and embezzlement of banks' assets (Boadi, 2018); and weak legal/regulatory and political institutions (Wahua, 2017). Undercapitalization is a symptom of banks' capital inadequacy to withstand financial shock. This particular problem pervades the entire banking landscape (including the Gambia). The collapse and increasing financial scandals in many businesses have raised great concern regarding the compliance of businesses with corporate governance principles and codes of best practices. Investors lack confidence in many African banks due to their perceived poor corporate governance compliance rate; as such, majority of banks across developing economies like Gambia are having undercapitalization difficulties. It is therefore critical to investigate corporate governance in an emerging country's banking sector using Gambia as a case study. Gambia makes a good case study for this study because it has history of political instability and sit-tight political leadership syndrome in West African sub-region.

This aim of this quantitative-empirical study is to establish the moderating effect of politics on the relationship between corporate governance and capital adequacy in Gambia. I specific terms, the study investigates: (1) the direct effects of politics, board effectiveness, management efficiency, and financial leverage on capital adequacy of Gambia's banking sector; (ii) the moderating impact of politics on the relationship between board effectiveness and capital adequacy of Gambia's banking sector; and (iii) the relationship between management efficiency and capital adequacy of Gambia's banking sector. The results of the study would be useful to banks across the globe, prospective investors, academics and other researchers, governments, and other stakeholders. This study would adopt a parametric-empirical approach based on secondary data analysis techniques. It is a pure quantitative research which is aimed at statistically testing the relevance of the aforementioned variables in determining capital adequacy in the Gambia from 2001 – 2020 (20 years). These data were accessed from different international agencies (World Bank Group and International Monetary Fund) in order to avoid the use of manipulated data from Gambia's national institutions.

Literature

Conceptual Framework

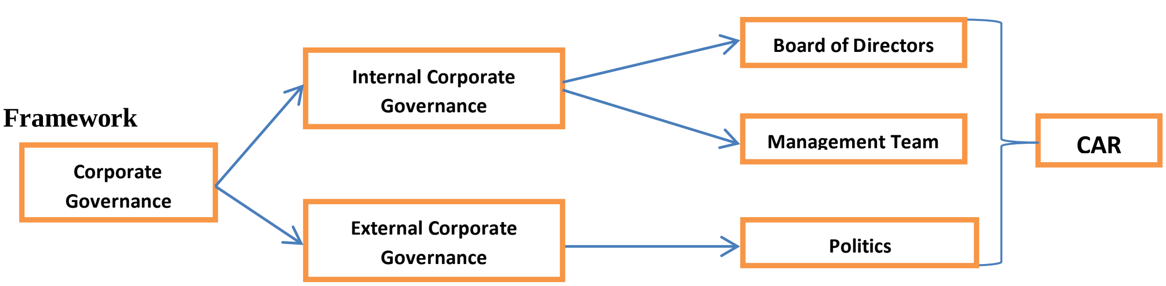

Figure 1: Diagram of the research's conceptual framework. Source: Authors (2023)

The crux of corporate governance in the corporate world is to ensure that businesses are ran in accordance with laid down soft and hard laws which are aimed at protecting the interests of shareholders as well as those of other fiduciary and non-fiduciary stakeholders (Agustina, Winarno & Dyan, 2021). The concepts guiding this study are depicted in Figure 1. Discussion around the role of firm (internal) corporate governance and country-wise (external) corporate governance structures in determining corporate performance in general and banks' capital adequacy in particular has been raging since the seminal work of Doidge, Karolyib and Stulz (2007) which stated that country-wise corporate governance account for 39 - 73% of corporate governance than firm internal corporate governance structure that account for 4 - 22% of firm performance. Hugill and Siegel (2014) believe that firm internal corporate governance dynamics are as important as country-wise factors and even more important in some cases (in determining the performance of firms). In this study, the interplay between internal and external corporate governance dimensions takes a critical and empirical approach which is aimed at testing the moderating effects of politics, in the relationship between internal corporate governance elements (board effectiveness, and management efficiency) and banks' ability to raise adequate capital in the Gambia, one of the English speaking countries in the Economic Community of West African States (ECOWAS).

Ejuvbekpokpo and Esuike (2013), Skeel (2014), and Valsan (2014) strongly believe that both internal and external corporate governance elements serve common purpose in strengthening the governance, performance, and sustainability of firms for the common good of all stakeholders. As such, there is need for internal and external corporate actors to act in unison for the good of firms and their numerous stakeholders. Ejuvbekpokpo and Esuike (2013) specifically asserted that effective and efficient corporate governance framework call for a robust and strong political will from politicians to make corporate laws that will promote strong legal systems that will enforce corporate governance best practices.

Political Stability

The Gambia (a unitary state) operates a presidential republican multi-party democratic framework with a unicameral parliamentary system. The President of the Gambia serves as the Head of State, Head of government, and Commander-in-Chief of the Armed Forces of the country (Sawe, 2017). A unicameral legislature implies a one chamber parliament unlike the American presidential political system with two chambers parliament (The Senate as the Upper Chamber, and the House of Representatives as the lower Chamber). A Draft constitution of the Republic makes provision for a two terms limit of five years each.

The political economic theory holds that capital fly to safer climes from corrupt political systems. This is because corrupt politics breeds violence and destructions on investments and productivity (UNCTAD, 2018). The ability of home and foreign investors to buy the equity of banks is a function of political stability in the country; as such, Abotsi (2016) believes that at high level of political quality, corruption extends beyond paying bribes to win contracts, obtaining official permits, and avoiding unnecessary bureaucratic delays to situations where there is malfunctioning of general political framework of a country. When this (general breakdown of national political system) happens, anarchy sets in; and the economy becomes too risky for investment. This leads to capital flight to safer heavens. Therefore, banks' ability to raise adequate capital is directly affected by the quality of the country's political system (Lambsdorff, Taube & Schramm, 2018). Citing Roe (1994), Wahua (2015; p. 59) asserts that:

> "Political power and country politics influence virtually everything in a country: banking, commerce, financial system, economics, ownership, control, regulation etcetera. As such, political power and political system can make or mar the fabrics of a country if they are judged good or bad".

Osei-Attakora (2021) argued that the cardinal basis for measuring the impact of politics on business in general and banks in particular is how corrupt the political system is. A corrupt political system affects businesses negatively while a non-corrupt political system has positive impact on businesses in general. Bad politics breeds corrupt tendencies while good politics does not breed corrupt tendencies.

Board of Directors' Effectiveness

The fundamental objective of boards of directors is to protect the assets and liabilities of firms; and this is done through effective oversight function in risk management (Bakin, Acikalin, Aktas & Celik, 2015). The shareholders (the real owners of firms) appoint directors to primarily protect their interest by effectively protecting the assets and liabilities of the firm. The boards of directors are to monitor and checkmate the activities of the management in order to ensure that shareholders have value for their investments (capital appreciation, and periodic receipt of increased dividends). Many contemporary works that studied board effectiveness and capital adequacy reveal that board effectiveness does not only have a significant relationship with banks' capital adequacy; but, that it do have a significant effect on it (although this significant effect could be positive or negative depending on the board's modus operandi, vision, and mission). Such recent authors include Irawan and Anggono (2015), Shaddady and Moore (2015), and Workneh (2014).

Management Teams' Efficiency

The efficiency of management team is primarily measured with profit maximization. Managers (as operators) must show their stewardship by increasing the overall worth of the firm. Management efficiency has significant effect on capital adequacy banks has being supported; and this is supported by scholars such as Al-Tamimi and Obeidat (2013); Aspal and Nazneen (2014); Bakin, Acikalin, Aktas and Celik (2015); Irawan and Anggono (2015). One notable exception is Workneh (2014) which empirical showed a contrary view that management efficiency does not necessarily translate to any significant effect on capital adequacy of firm.

Capital Adequacy

Banks increase their capital base deliberately and via regulatory policy (as was recently witnessed in Nigeria and Ghana). In 2011, the Bank for International Settlements set a 25% minimum benchmark for shareholders' commitment to their total assets. In an empirical study carried out by Wahua in 2017, it was established that banks in Africa and Asia do not meet the 25% benchmark for shareholders' commitment to total capital. The study concluded by adding that debt accounts for circa 91% of capital of banks in Afro-Asian countries. This is an abysmal situation as the practical implication is that African and Asian banks fall short of 25% minimum equity holding by about 16%. The consequences of poor capitalization of banks include under-performance due to high revenue payout as interest on debts, poor corporate governance mechanism (as management engages in sharp managerial practices to sustain their banks); and early liquidation of banks (as an inevitable occurrence).

Theoretical Framework: Stakeholder-Institution Theory

This study rests on stakeholder-institutional theory, which is a blend of two corporate governance theories: stakeholder theory, and institutional theory. Wahua (2017), Essen, Strike, Carney and Sapp (2015), Hugill and Siegel (2014), and Henisz, Dorobantu, and Nartey (2014) agree with the unification of stakeholder and institutional theories in one study. The Organisation of Economic Cooperation and Development (2014) strongly opined that: (i) Companies should respect the rights of stakeholders established by law or through mutual agreements; (ii) Stakeholders whose interests are protected by law should have adequate opportunities to obtain effective remedies where their rights have been violated; (iii) Performance-enhancing mechanisms for employee should be put in place their participation and development; (iv) Stakeholders who participate in the corporate governance process should have access to relevant, sufficient and reliable information on a timely basis; (v) Stakeholders should be able to freely communicate their concerns about illegal or unethical practices to the board of directors without risk that their rights will be compromised for doing so; and (vi) Corporate governance framework should be complemented by effective enforcement of creditor rights as well as an effective insolvency framework.

Citing Riley (2012), Wahua (2017) stated that business stakeholders have interests in businesses as well as powers and influence on the operations of businesses; and this could be illustrated thus: (i) Shareholders' main interests in businesses are Profit growth, Share price growth, dividends; their main power and influence lie in the election of board of directors; (ii) The main interests of Banks and other Lenders are the interest and principal to be repaid by firms as well as the maintaining of credit rating while their primary power and influence are the enforcement of loan covenants and the withdraw banking facilities granted to businesses; (iii) Business directors and managers are keenly interested in gaining salary, share options, job satisfaction, and status while their main powers and influences lie on making decisions and having detailed information in order to avoid the problems which are related to information asymmetry; (iv) The employees of businesses are mainly interested in earning salaries and wages, job security, and job satisfaction and motivation while their primary powers and influences are staff turnover (resigning from jobs as at when needed), industrial action (to register their displeasure to perceived bad working condition), and the provision of quality service quality; (v) The main interests of business Suppliers are the securing of long term contracts, prompt payment for goods and serviced provided, growth of purchasing power in the operations of the business. Conversely, their main powers and influences rational pricing of goods and services provided, rendering of quality services and provision of quality products, and ensuring product availability; (vi) The Customers of businesses are mostly interested in receiving reliable quality for goods and services, value for money, product availability, and prompt and responsible customer service. The main powers and influence of the customer to businesses are the boosting of the sales revenue of businesses by way of repeat purchases, and promotion of the products and services of the business via word of mouth recommendations to third parties; (vii) The host community as a business stakeholder is mainly interested in the protection of the environment, provision of local jobs for unemployed members of the host community, local impact on the host community by way of corporate social responsibility. Host communities' powers and influences on business operations is indirect via local planning and opinion leaders' molding of public opinion for or against the company; and (viii) Governments' are mainly interested in ensuring that businesses operate legally, pay corporate taxes promptly, and create jobs for unemployed and underemployed persons. Wahua, Kwode and Chukwuma (2022) observed that stakeholders are at the heart of businesses, and that stakeholder synergy is critical for businesses' success stories.

Empirical Review

Kakar, Ali, Bilal, Tahira, Tahir, Bahadar, Bukhari, Ullah and Aziz (2021) examined the impacts of corporate governance (CG) and risk management on the performance and capital adequacy of banks that operated in Pakistan between the years 2010 - 2015. This quantitative study anchored on agency theory; made use of secondary data extracted from annual reports of sampled banks; and analysed data using the ordinary least square (OLS) multiple regression analysis. Risk management was measured with value at risk (VAR) and bank performance was measured with dummy variables. The study established that: (i) corporate governance has significant negative effect on risk management (measured with value at risk); and (2) corporate governance has significant positive effect on capital adequacy of banks. This implies that improved corporate governance effectiveness significantly increases capital adequacy of commercial banks while laxity in corporate governance decreases banks' capital adequacy. This study goes to call for improved corporate governance architecture in order to reduce non-performing loans of banks 9a measure of board effectiveness) as well as increase their capital adequacy. Technically, when banks' loans are performing, they earn higher interest incomes which go to increase their capital base via increased retained earnings.

The work of Agustina, Winarno and Dyan (2021) studied the impact of good corporate governance (CG) on capital adequacy ratio (CAR) of banks in Indonesia using agency theory. The study made use of secondary data from Federal Reserve Bank of Indonesia from 2015 to 2019; and the OLS multiple regressions was used. Only listed banks were studied. The major variables used in the study are non-performing loans (a measure of board effectiveness), return on assets (a measure of management efficiency, and capital adequacy ratio (CAR). The work established that board effectiveness (NPL) and management efficiency (ROA) have no significant impact on bank CAR. Agustina, Winarno and Dyan (2021) agree with Jamil and Qureshi (2020), and disagree with Okoye, Evbuomwan, Achugamonu and Araghan (2016). The impacts of board effectiveness and management efficiency would be tested in this study at country level. The authors recommend that there is need to include the impact of institutional variables on future studies.

Wijaya, Sulistyo and Roziq (2021) evaluated the impacts of corporate governance (CG) and capital adequacy ratio (CAR) on profitability and financing risk of sharia banks based on multiple theoretical models. This is a quantitative research with secondary data from Federal Reserve Bank of Indonesia from 2015- 2019. Partial least square (PLS) model of data analysis was used. The study established that corporate governance (CG) and capital adequacy ratio (CAR) affect financing risk as well as profitability. This is a new dimension in the study of corporate governance and capital adequacy of banks as corporate governance and capital adequacy (independent variables) are linked to financing risk and profitability (dependent variables). This is somewhat connected to the research carried out by Okoye, Evbuomwan, Achugamonu and Araghan (2016). Finally, the study suggest that further research on the theme should consider the following observations: need for larger sample size and the incorporation of return on assets (ROA) and non-performing loan (NPL) as the proxies of corporate governance performance. This study measured board effectiveness and management efficiency with non-performing loans and returns on assets respectively. The reason for this is that the overall function of board of director in the operation of deposit taking banks across the globe is to protect banks' assets and liabilities while that of the management team is profit maximization (Wahua, 2017).

Jamil and Qureshi (2020) investigated the association between the corporate governance (CG), profitability and capitalization of banks in Pakistan using agency theoretical underpin. This quantitative research made use of secondary data from annual reports of listed banks in Pakistan for the period 2006- 2018. The ordinary least square (OLS) multiple regression was used. The three dimensions of the study are corporate governance (measured by shareholder interest, board size, CEO compensation), management efficiency (measured by profitability), and bank capitalisation (measured by capital adequacy ratio). The study established that board effectiveness (measured by NPL) and management efficiency (measured by ROA) have no significant impact on banks' capital adequacy ratio (CAR). The proposed study would also run the interaction effects of internal corporate governance and politics on capital adequacy of Gambia's banking sector.

Wahua (2017) carried out an empirical cross-country comparative study on the role of corporate governance and institutional structures on banks' capital adequacy ratio (CAR) with the moderating effects of legal systems. The study covered the period 1998 – 2014 with aggregate secondary data from banking sectors of five countries out of the eight developing countries of D-8. These five countries are: Egypt, Malaysia, Nigeria, Pakistan, and Turkey. This stakeholder theory based work used both ordinary least square and hierarchical regression models to test the hypotheses developed in the research. Corporate governance (CG) has two proxies (board effectiveness and management efficiency); the institutions covered are politics, law, finance; leverage was the control variable; and capital adequacy ratio (CAR) was the dependent variable. Corporate governance and institutional variables were the independent variables. The critical findings of the work are: (i) corrupt political systems have negative effects on banks' CAR; (ii) legal and financial systems have different effects on banks' CAR; (iii) board effectiveness and management efficiency have different effects on banks' CAR; (iv) strong legal systems significantly moderated the effects of corporate governance on banks' CAR; and (v) the interaction of legal systems and board effectiveness has positive effects on banks' CAR. The study recommends that there is need to replicate the study in other economic and non-economic groups in order to validate its findings. The recommendation of this study forms the corner stone of this study.

Okoye, Evbuomwan, Achugamonu and Araghan (2016) investigated the impact of CG on the profitability of Nigerian banking sector. This quantitative research made use of secondary data. The ordinary least square regression (OLS) analytical technique was used. The prime findings of the study are: (i) capital adequacy ratio (CAR) has significant negative impact on profitability; and (ii) non-performing loan (NPL) has significant positive effect on profitability while inflation (a control variable) has no significant effect on profitability. This study by Okoye, Evbuomwan, Achugamonu and Araghan (2016) is a reverse of the direction of this particular study. It measures the impact of capital adequacy ratio on profitability and the impact of non-performing loan in profitability. While capital adequacy ratio served as an independent variable in Okoye et al (2016), it serves as a dependent variable in the proposed research. Second, while profitability served as a dependent variable in Okoye et al (2016), it serves as an independent variable in this study by serving as a proxy of management overall efficiency. The authors desire that there is need to include the impact of institutional variables on future studies. Institutional variables are integral parts of institutional theory. The salient institutional variables for this proposed study is the political system in the Gambia.

Pindado, Queiroz and Torre (2015) investigated the moderating impacts of country-level corporate governance indicators (such as legal systems, financial systems,) on market valuation using data from 12 countries: Austria, Belgium, France, Germany, Greece, Ireland, Italy, Spain, the Netherlands, the United States, the United Kingdom, and Japan (these are American and

European countries). The study established that Legal protection and financial support have significant positive effects in moderating the relationship between corporate governance (as measured by ownership structure and independence of the board of directors) and market valuation. This study did not factor-in the effectiveness of the board as well as the efficiency of the management team (despite the fact that the board and the management are at the nucleus of firm corporate governance). Again, all the studied countries are developed economies; it did not consider emerging or undeveloped economies. There is need to carry out a similar study using the Gambia's banking sector as case study.

Majocchi, Dalla Valle and D'Angelo (2015) investigated the influence of firm and country corporate governance factors on the performance of 403 Italian manufacturing firms. This parametric research established that countries' corporate governance factors (political stability, economic performance and financial stability) have significant effect on Italian manufacturing firms' financial performance (they are particularly affected by institutional features in general and political risk in particular). It is the suggestion of the work that there is need for further researches to incorporate other countries for comparability purpose since it was based on a single economy. This study is an attempt to hearken to that call; and the Gambia is a good fit as its banking sector is understudied.

Methods

Research Design and Model

This is a parametric-empirical study based on descriptive research design approach. Osei-Attakora (2022) states that parametric quantitative studies ensure that normality assumption is met; investigations like cause and effects, associations, and relationships are carried out; and positivism researches are executed for the prime purpose of developing new knowledge. This work is anchored on the following statistical model:

$$\text{CAR} = \alpha + \beta\text{Pol} + \beta\text{Bod} + \beta\text{Mgt} + \beta(\text{Pol} * \text{Bod}) + \beta(\text{Pol} * \text{Mgt}) + \beta\text{Lev} + ei$$

Where:

CAR	=	Capital adequacy of banks in the Gambia
Pol	=	Gambia' political system
Bod	=	Board effectiveness of banks in the Gambia
Mgt	=	Management efficiency of banks in the Gambia
Pol * Bod	=	Interaction of politics and board effectiveness
Pol * Mgt	=	Interaction of politics and management efficiency
Lev	=	Financial leverage of Gambia's banking system
α	=	Constant factor or intercept
β	=	Coefficients of each variable
e	=	Error terms

Population and Sampling Procedures

The population of this study includes all the commercial banks that operated in The Gambia, within 2001 – 2020 (20 years). According to the Central Bank of the Gambia (banking supervision; n.d.), there are 12 commercial banks in the country. These banks are: Access Bank (Gambia) Ltd, Arab Gambia Islamic Bank, Banque Sahelo-Saherienne Pour L'Investissement et Commerce, Bloom Bank (Gambia) Ltd, Ecobank (Gambia) Ltd, First Bank Nigeria (Gambia) Ltd, Guaranty Trust Bank (Gambia) Ltd, Mega Bank (Gambia) Ltd, Standard Chartered Bank (Gambia) Ltd, Trust Bank Ltd, Vista Bank (Gambia) Ltd, and Zenith Bank Gambia. The census sampling technique (the study of the whole population) was adopted because the country-wise aggregate data of all the variables under study would were collected via secondary method from relevant international organizations like the World Bank, and International Monetary Fund (IMF). Wahua and Ahlijah (2020) adopted this approach.

Data Collection Process and Analysis Technique

Data on all the variables were collected from the database of International Monetary Fund and the World Bank Group. The data were analysed descriptively and inferentially with general linear model (Univariate Analysis of Variance). The inferential statistics produced two outputs: the test of between-subjects effects (to test the fitness of the model for the analysis), and the parameter estimates (to test the hypotheses developed in the study). All the statistical analyses were set at 95% confidence level. This is supported by Wahua and Ezeilo (2021).

Operationalization of Research Variables

Table 1: Operationalisation of Research Variables

Variable	Code	Measurement	Reference
Independent Variables:			
Political stability	Pol	Political stability index	World Bank (2021)
Board effectiveness	Board	(NPL/Gross Loan) * 100	Wahua (2020)
Management efficiency	Mgt.	(Net income after tax/total assets) * 100	Wahua (2020)
Control Variable:			
Financial Leverage	Lev	(Total Assets/Capital) * 100	Wahua (2020)
Dependent Variable:			
Capital Adequacy	CAR	$\frac{SWRCi * 100}{SWRWAi}$	Wahua (2020)

Source: Authors (2023)

Political stability is a great factor to be considered in banks' capitalization exercise. The economic theory holds that capital flight sets in in unstable/unsafe economies (Wahua, 2017). The main function of the Boards of banks is to secure the assets and liabilities; and non-performing loan is a good measure of assessing board's effectiveness. Management efficiency is quantified with profitability; and leverage is measure with the ratio of total assets to capital. See Table 1 for the details of the measurements of the variables.

Results and Discussion

Test of Basic Normality

It is a basic requirement for all parametric research to pass the basic assumption of the dependent variable(s) being drawn from a normal distribution (Wahua, Tsekpo & Anyamele, 2018). The Shapiro-Wilk test of normality was carried out with the aid of statistical package for social sciences (SPSS); and the results as shown in Table 2 indicate that all the variables passed this basic assumption for parametric research.

Table 2: Tests of Normality (Shapiro-Wilk)

Variable	Statistic	df	**Sig.**
Politics	0.923	20	**0.113**
Board effectiveness	0.937	20	**0.209**
Management efficiency	0.903	20	**0.147**
Financial leverage	0.959	20	**0.529**
Capital adequacy	0.970	20	**0.760**

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Source: Authors (2023)

The results of the normality test on all the variables show that their significance values are greater than 0.05; hence, this show that they are drawn from normal distribution (Wahua & Ezeilo, 2021; Wahua, Mkombo, Okai & Acquah-Yalley, 2022).

Test of Model Fitness

Table 3: Tests of Between-Subjects Effects

Source	Type III Sum of Squares	Mean Square	F	Sig.
Corrected Model	493.475[a]	82.246	25.355	0.001
a. R Squared = .921 (Adjusted R Squared = .885)				
Dependent Variable: Capital Adequacy				

Source: Authors (2023)

Table 3 shows that the Model used in this study is a good fit for the analyses carried out (F = 25.36; Sig = 0.001); and that it accounted for 92% and 88% of the variations that occurred in capital adequacy when error terms is not accounted for, and when error was accounted for respectively.

Test of Hypotheses

Two hypotheses guide this research; and they are stated below:

H0$_1$: Politics does not moderate the relationship between board effectiveness and capital adequacy of banks in Gambia

H0$_2$: Politics does not moderate the relationship between management efficiency and capital adequacy of banks in Gambia

Hypotheses 1 and 2 were tested simultaneously using Univariate general linear model (UGLM). Tsekpo (2020) supports the use of interaction effect to test moderation while Wahua, Okolobi and Dioha (2022) used UGLM.

Table 4: Parameter Estimates

Variable	B	t	Sig.	Partial Eta Squared
Intercept	10.259	0.857	0.407	0.053
Politics	-0.078	-0.385	0.707	0.011
Board Effectiveness	7.937	5.060	0.001	0.663
Management Efficiency	-20.163	-6.123	0.001	0.743
Politics * Board	-0.183	-5.468	0.001	0.697
Politics * Mgt	0.418	6.250	0.001	0.750
Financial Leverage	2.105	6.689	0.001	0.775
Dependent Variable: Regulatory Capital				

Source: Authors (2023)

The results of Hypotheses 1 and 2 are captured in Table 4 (Parameter Estimates). The salient findings contained in Table 4 are:

1. Politics had non-significant negative effect on capital adequacy of banks that operated in Gambia from 2001 to 2020;
2. Board effectiveness in risk management had 66% significant positive effect on capital adequacy of banks that operated in Gambia from 2001 to 2020;
3. Management efficiency in profit maximization had 74% significant negative effect on capital adequacy of banks that operated in Gambia from 2001 to 2020;
4. Politics had 70% significant negative moderation on the relation between board effectiveness and capital adequacy of banks that operated in Gambia from 2001 to 2020;
5. Politics had 75% significant positive moderation on the relationship between management

efficiency and capital adequacy of banks that operated in Gambia from 2001 to 2020;

6. Financial leverage had 76% significant positive effect on capital adequacy of banks that operated in Gambia from 2001 to 2020; and finally,
7. When all the variables are held constant (that is equal to zero), capital adequacy of banks in Gambia would increase by 5% (but this is not significant).

Discussion of the Major Findings

The weak political system in Gambia has significant negative effect on banks' ability to raise adequate capital in the country. This is not farfetched from the political economy theory canvassed by Wahua (2017; 2020); that capital flies away from political unstable or unpredictable zones (or countries) to a more politically stable one. The long years of rule by a single political leader did have negative impact on the economy in terms of raising adequate capital by banks that operated in the country.

Again, the unpredictable political atmosphere that hovered in the country within the period under review weakened the capacity of boards of directors to raise adequate capital for their banks. This is not farfetched also from the fact that politics controls everything in an economy (Faten, 2013; Aguilera & Jackson, 2010). An unstable political atmosphere is corruption prone; and a corrupt political system affects business adversely in no small measure (Osei-Attakora, 2021). This is because corrupt politics breeds violence and destructions on investments and productivity (UNCTAD, 2018). The ability of home and foreign investors to buy the equity (share capital) of banks is a function of political stability in the country (Abotsi, 2016).

Even when unstable political atmosphere did not significantly altered the balanced of capital adequacy of banks that operated in the Gambia within the period under review, it is statistically evident that it weakened the capacity of the key corporate governance internal stakeholder (Boards) from functioning effectively in turning around the fortunes of their various banks in terms of moping adequate capital from within and outside the country. Political instability leads to general breakdown of national political system; results to anarchy; and the economy becomes too risky for investment. This leads to capital flight to safer heavens. Therefore, banks' ability to raise adequate capital is directly affected by the quality of the country's political system (Lambsdorff, Taube & Schramm, 2018).

One salient finding as revealed in the Parameter Estimate is that the interaction of political stability and management efficiency in profit maximization resulted to significant increase in capital adequacy of banks in the country to the tone of 75%. This is despite the fact that both politics and management efficiency individually had negative (decreased) effects on capital adequacy. So, it is an innovation in literature that a weak political system can be strengthened by a somewhat efficient management when they interact. Banks managers in the Gambia therefore understand the political terrain of the country, and know how best to maneuver around its weaknesses in order to remain in business. One possible explanation for this is what Abtosi (2016) termed the grease the wheels hypothesis. It suggests that an inefficient politics or bureaucracy creates a major impediment to economic activity and so some grease money may be needed to circumvent this impediment. Bad politics serves as greasing the wheels when it promotes business efficiency by greasing the palms of people in authority and with influence (Osei-Attakora, 2021). Another possible explanation is that the profits been declared by banks in the Gambia are not actually earned; but, what may qualify as paper profits.

Conclusion

Implications of the Major Findings

The findings of this study are relevant to the stakeholder-institution theoretical framework guiding this study. The interaction of political institution with internal stakeholders (boards of directors and management teams) witnessed significant effect on capital adequacy of banks that operated in Gambia within the period studied. While the interaction of politics and boards of directors decreased capital adequacy the interaction of politics and management teams increased capital adequacy of banks that operated in the Gambia within the period being studied.

Practically, the need for governments and citizens to ensure stable and healthy political environment cannot be ignored. This is very crucial as undercapitalized banking sectors could undermine banking intermediation and resultant economic growth/development. Bank Managers equally have a role to play in order to survive in an unstable political environment without breaking soft and hard laws of the country. This is in relation to the concept of grease the wheels hypothesis.

The need for governments, the Central Bank of Gambia, and corporate bodies to formulate policies, regulations, and laws for healthy political environment cannot be neglected. This is because politics virtually controls everything that happens in a country (Osei-Attakora, 2021).

Summary

Bank failures and banking crises create fears, anxieties, and loss of productivity to various stakeholders; and some of remote causes of bank failures across the globe are weak/poor corporate governance structures and practices, credit risk; government recapitalization regulation; corruption and embezzlement of banks' assets; and weak legal/regulatory and political institutions. Undercapitalization is a symptom of banks' capital inadequacy to withstand financial shock. Anchored on stakeholder-institutional theory; and secondary data, and general linear model, this study investigated the moderating impact of politics on the relationship between board effectiveness, management efficiency and capital adequacy of Gambia's banking sector while controlling for financial leverage.

The studied established that: (i) the interaction between political stability and board effectiveness in risk management has 69.7% significant negative effect on banks' capital adequacy in Gambia; (ii) the interaction between political stability and management efficiency in profit maximization has 75% significant positive effect on banks' capital adequacy in Gambia; (iii) financial leverage has 77.5% significant positive effect on banks' capital adequacy in Gambia; (iv) board effectiveness in risk management has 66.3% positive effect on banks' capital adequacy in Gambia; and (v) management efficiency in profit maximization has 74.3% significant negative effect on banks' capital adequacy in Gambia. The relevance of the stakeholder-institutional theory was established in this study.

The work recommends that all political stakeholders in Gambia should strive to stabilize the country's political system, and that the board of directors of banks in Gambia should ensure that the management of the banks applies prudent and best banking practices in declaring profit. This is because a positive profit should increase the capital adequacy of banks positively in a normal situation.

Research Ethics and Conflict of Interest

This is an original article; and no known ethical breach was engaged in. Also, there is no conflict of interest in this research.

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