Financial Distress Management and Financial Performance of Selected Rural Banks in Ashanti Region, Ghana

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DOI: https://doi.org/10.51584/IJRIAS.2025.10020047

Received: 08 February 2025; Accepted: 18 February 2025; Published: 19 March 2025

ABSTRACT

This study is motivated to investigate the rampant occurrence of Financial Distress in financial institutions over the past few years in Ghana which has led many Financial Institutions into bankruptcy and finally collapse. The increasing trend of this problem has to be curbed since Financial Institutions contribute immensely to the growth of the economy. The general objective of the study was to analyze the financial distress management and financial performance to enhance the financial performance of selected Rural Banks in the Ashanti region. The data obtained from respondents was analyzed employing Descriptive Statistics, Linear and Multiple Regression Analysis, and System Improvement Analysis. The results of the analysis concluded that: the sampled Rural Banks did not manage their financial distress effectively during the study period which resulted in their low Financial Performance; Except for Operational Efficiency; Capital Adequacy; Asset Quality; Liquidity; and Corporate Governance have a positive significant effect on Financial Distress Management; Financial Distress Management has a positive and significant effect on Financial Performance; and RCC-FP parameters introduced by the researcher, would have a strong, positive, and significant influence to improve Financial Performance and mitigate Financial Distress. It was also recommended that the Bank of Ghana should introduce a policy framework to embrace: Fit and Proper Test and Performance Contracts for all management staff; and the use of Credit Bureau and Credit Insurance to deal with Financial Distress to enhance Financial Performance.

Keywords: Financial Distress; Financial Distress Management, Financial Performance; Rural Banks.

INTRODUCTION

Financial distress is a critical challenge that affects the stability and performance of financial institutions, particularly rural banks that play a crucial role in fostering economic growth in developing countries (Altman & Hotchkiss, 2010). Rural banks in Ghana serve as financial intermediaries, providing credit to small and medium enterprises (SMEs), farmers, and low-income earners, thereby promoting financial inclusion (Boamah, 2020). However, financial distress—often characterized by liquidity shortfalls, declining profitability, and insolvency risks—poses a significant threat to their sustainability and financial performance (Osei-Assibey & Asenso, 2015).

In the Ashanti Region of Ghana, rural banks face increasing financial pressure due to factors such as loan defaults, poor risk management practices, and regulatory compliance challenges (Nyarko-Baasi, 2021). Effective financial distress management strategies, including asset restructuring, cost minimization, and capital infusion, are essential in mitigating these risks and ensuring long-term financial performance (Kwarkye et al., 2019). The relationship between financial distress management and financial performance remains a critical area of study, as inadequate responses to financial distress can lead to bank failures, negatively impacting local economies (Mensah et al., 2017).

This study aims to examine the impact of financial distress management on the financial performance of selected rural banks in the Ashanti Region of Ghana. By analyzing financial data, distress management strategies, and performance indicators, the research seeks to provide insights into best practices for enhancing the resilience and sustainability of rural banking institutions.

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume X Issue II February 2025

Rationale of the Study

Over the last decade, there has been an occurrence of financial crises in Ghana. The recent 2016-2019 financial crisis has brought untold hardship to a majority of Ghanaians and institutions with different levels of impact. The crises that took place affected Ghana's financial market; depositors; investors; individuals, businesses; government, and the general economy as a whole. Businesses were affected heavily in securing loans and this reduced their ability to invest more and employ more employees at the expense of the economic growth. Most of the employees of the defunct financial institutions also became unemployed, which affected their family income level. Individual investors also lost their invested funds. This made some of them borrow money from their immediate family and friends to survive. Some, on the other hand, have had physical; mental and emotional disorders. According to ASEPA **(African Eye Report, 2020),** the social impact was a horror as there was a demise of 18,000 affected workers nationwide. The crisis also increased the debt of the country as the government of Ghana has to look for funds to assist the official receiver in paying depositors of the affected institutions. Financial service users preferred to keep their money in the house rather than save or invest it in financial institutions, which further affected the financial institutions' ability to support economic activities to grow. On a more serious note, the customers' spending power was reduced due to the potential loss of their deposits. The confidence level of Ghanaians and other people outside Ghana, in financial sectors, was eroded as the risk level in the financial market kept on recurring. The crisis became a worrisome situation for the majority of the Ghanaian populace because of the disaster and the adverse effects it brought to the general investors and stakeholders as well as the economy as a whole. This worrisome crisis made academicians, scholars, banking analysts, financial analysts, investment analysts, and the general public call for a lasting stringent solution to the crisis to assist protect stakeholders' investment funds.

As a result of the crisis, there were massive panic withdrawals and the banks were not well-liquid and resourceful enough to meet those massive panic withdrawals, therefore they adopted a "delay in payment" system which ushered in chaos in most of the centers. The most evidential event was that the financial institutions that were technically insolvent were all closed down and their licenses revoked which resulted in a loss of about 42,850 jobs both direct and indirect according to ASEPA, **(African Eye Report, 2020)** with an estimated debt pile of over GH₵ 25 billion pronounced by Ken Ofori-Atta, **(GhanaWeb Business News, 2022).**

The effort of the government through the Bank of Ghana to solve the problem was to embark on a clean-up exercise to sanitize financial institutions. The first step BoG took was to set up a regulatory minimum capital requirement in accordance with the type of the institution involved, to increase the banks' and non-banking financial institutions' (NBFIs) capital base to resource them to become liquid which would allow them to match up massive withdrawals. The second step BoG took during the clean-up exercise was to eliminate all defunct banks and NBFIs, which were totally and technically insolvent, from the system to build a sustainable banking industry that would assist in protecting future investors and boost public confidence in financial institutions. In all 474 banks and NBFIs were shut down their licenses were revoked. However, the ARB Apex Bank plc was charged to resuscitate over 30 Rural Banks that were marked "marginal" or "weak" into efficiency.

The financial distress problem has not only been in Ghana but cut across the globe. Because of this, there has been a lot of research done on the financial distress problem, however, upon these numerous researches undertaken by many researchers to find solutions to the Financial Distress problems and the rigorous effort made by banking practitioners as well as various governments in dealing with the problem, Financial Distress still exist. Now the question is, "Why Financial Distress is still posing a problem, while many studies have been done on it?" These among other reasons are the rationale behind the study: "Financial Distress Management and Financial Performance of Selected Rural Banks in Ashanti Region".

Problem Statement

The banking sector is the engine that drives economic growth through the efficient allocation of resources to productive units in any economy resulting in global competitiveness as emphasized by **Kamau (2011)** and **Mwega (2011)**. This underscores the essential role banks play in fostering economic development. The banking sector is among the sectors expected to facilitate the realization of Vision 2030, by ensuring that there

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume X Issue II February 2025

is a provision of efficient financial services and investment opportunities that will create a vibrant and global competitiveness of financial services in the world and for that matter Ghana (**Bunmi, 2020; Beck et al., 2007;** and **Park & Mercado, 2015).**

However, the study of **Bariviera et al. (2014)** asserted that globally competitive financial services can only be achieved in the banking sector if financial distress is well managed by banks.

Financial distress is a pervasive global issue that cannot be ignored. This indicates that most of the financial institutions across the globe have gone through financial distress, such as Lehman Brothers (USA) – 2008; Citigroup (USA) – 2008; Northern Rock (UK) – 2007; Banco Espirito Santo (Portugal) – 2014; Icelandic Banks (Iceland) – 2008; Dexia (Belgium/France) – 2011; and many more.

Ghana is not an exception as about 474 Banks and Non-Banking Financial Institutions (NBFIs) have been shut down and their licenses revoked during the 2016-2019 financial crisis, and according to the **Bank of Ghana Report (2018),** over 30 Rural Banks were among the banks classified as distressed banks during the financial clean-up exercise. These rural banks were not shut down by BoG, however charged the ARB Apex Bank Plc. to resuscitate those Rural and Community Banks from imminent collapse to efficiency (**Bank of Ghana, 2018).**

According to **Blankson et al. (2024),** the Bank of Ghana (BoG) identified key causes of the rural banks' financial crisis that took place during 2016-2019, including non-performing loans, undercapitalization, poor profitability, and governance failures, compounded by a lack of financial expertise among rural bank directors. It was also discovered that these causes of FD occurred due to failure on the part of the rural banks to adhere to both the CAMEL parameters outlined and designed by the Basel Committee and Banks Supervision, to prevent future occurrences of financial crises and the corporate governance guidelines prescribed by BoG **(Bank of Ghana, 2019).**

If these problems are left unaddressed, the situation could result in further insolvencies, harming investors, businesses, other stakeholders, and the general economy as a whole. Therefore, this study seeks to identify and prescribe those financial distress management strategies and practices that are most effective and efficient to address these problems that led some of the Rural Banks into distress, to ensure the sustainability and growth of these critical rural banks in the Ashanti Region of Ghana, focusing on adherence to CAMEL parameters and corporate governance guidelines. These will help improve the financial performance of rural banks and ensure the continuity of the roles they are playing to provide banking services to the rural population, such as providing credit to small-scale farmers and businesses and supporting development projects in rural areas.

Research Gap

There have been a considerable number of researches that have been done in the area of financial distress of financial institutions around the world and for that matter Ghana. **Arzish S. and Hina (2015)**, investigated the association between financial distress management and financial performance using 15 fuel and energy sector companies from 2007 to 2012; **Sporta**

F.O (2018), focused on the effect of financial distress factors on the financial performance of commercial banks, using a census of 43 commercial banks in Kenya. **Zhen-Jia-Liu (2015),** tried to establish the determinants of financial distress Management using 772 sample banks, which represent the banking sector of OECD, NAFTA, ASEAN, EU, NICs, G20, and G8 countries, for which data was collected from 2002 to 2015. Without limiting to the above researchers, **Babalola (2009)** also studied the perception of financial distress and customers' attitudes, while **Brownbridge (1998)** focused on financial distress in local banks in Africa and its implications for prudential policy. **Aghaei M. (2013)**, also studied financial distress and bankruptcy prediction in subsidiaries of holding businesses, and a host of others. All these researchers focus on identifying the impact of Financial Distress on commercial banks, and public and private institutions with the aim of using appropriate measures and restructuring mechanisms to prevent financial distress and bankruptcy from further occurring. Furthermore, the studies of **Aasen M.R. (2011); Zamorsk M.J. & Lee (2015); Cheserek**

B.K (2007); Aziz & Dar H. (2006); etc. focused on establishing how severe commercial banks, insurance

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume X Issue II February 2025

companies, and public and private companies suffer from financial distress. Similarly, few known studies have been conducted in Ghana regarding financial distress management. All these local studies have failed to demonstrate the extent to which bank-specific factors affect financial distress management and the effect of financial distress management on the financial performance of Rural Banks in Ghana. These local studies include the study of **Samanhyia et al. (2016), Juabin Matey (2019), Gilbert SebeYeboah et. al (2014), Addo F. & Nipa E. (2006), etc**. Their studies are geared toward predicting and analyzing financial distress and performance of manufacturing companies and commercial banks rather than Rural Banks in Ghana. To add to the foregoing discussion, the literature on Financial Distress also lacks studies on Financial Distress Management and performance of Rural Banks as well as determinants of Financial Distress Management. Upon extensive review of the literature, none of the studies done either in Ghana or elsewhere was about financial distress management of rural banks so that their empirical findings and recommendations could be applied to remedy the identified distressed Rural Banks during financial clean-up exercise.

With respect to financial distress management and financial performance, all attention and focus of the researchers were on the manufacturing companies, public and private organizations, insurance companies, microfinance institutions, Savings and loans companies, and especially commercial banks whose structure and operations are slightly different from Rural Banks in Ghana and for that matter their empirical findings cannot be generalized to include Rural Banks due to these structural and operational differences. This proposition is confirmed by the study of **Ntoiti (2013); Ouma, (2011), Kosikoh, (2014); and Muigai, (2016);** which stated that the Studies on financial distress in Kenya have focused on Local Authorities, manufacturing companies, insurance companies, non-financial firms, and largely on commercial banks. The implication of the above discussion demonstrates that a gap exists in the literature concerning the financial distress management of Rural Banks and that an unresearched gap is related to Financial Distress Management and the Financial Performance of Rural & Community Banks.

Therefore, in a bid to fill this gap and add to the existing body of knowledge, this study sought to bridge this research gap by exploring **"Financial Distress Management and Financial Performance of Selected Rural Banks in Ashanti Region".** This would help to identify the determining factors of Financial Distress Management (FDM) and the effects Financial Distress Management has on the Financial Performance (FP) of the selected Rural Banks in the Ashanti Region so that improved financial distress management systems and actions could be suggested and applied to make them more efficient.

Objectives of the Study

General Objective

The general objective of the study is to analyze the financial distress management and the financial performance to improve Financial Performance of the Selected Rural Banks in the Ashanti Region

Specific Objectives

i. To describe the state of financial distress management and the financial performance of selected Rural Banks in the Ashanti Region.
ii. To assess the determinants of financial distress management of the selected Rural Banks in the Ashanti Region.
iii. To evaluate the effects of financial distress management on the financial performance of Selected Rural Banks in the Ashanti Region.
iv. To synthesize an improved financial distress management system to enhance the financial performance of the selected Rural Banks in the Ashanti Region.

LITERATURE REVIEW

Review of Major Concepts

Financial Distress versus Financial Performance

As long as we hold beliefs that not all financially distressed companies will end up bankrupt, likewise, it is true

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that all bankrupt companies would have been financially distressed for some time. Therefore, a firm's financial distress is a causal agent to the reduction in efficiency of companies' management operations. According to **Masaaki, (2012, p.3),** amid the recent financial crisis, it is demanding to analyze the role of the central bank during the crisis to improve safety measures and efficiency of the payments. In some cases, the financial crisis happened because of deposit runs on banks such as Northern Rock Bank in the UK and gave rise to other important systematic financial institutions becoming distressed.

As stated in the studies by **Tan (2014), Adeyemi (2012),** and **Kariuki (2013),** firms with low financial distress tend to perform better than firms with high financial distress and this has resulted in the development of a negative relationship between financial distress and the financial performance of firms. **Kariuki (2013)** researched the impact of financial distress on commercial banks' performance in Kenya using a population of forty-four banks, and a sample of twenty-two selected banks and established that financial distress had a significant effect on the financial performance of banks where performance was negatively affected.

There is a paucity of empirical studies on financial distress. Most of the prevailing empirical works have focused on the factors of financial performance in the banking system. Consequently, determining key corporate financial distress factors and a deeper understanding of the extent to which they affect the financial performance of the Rural Banking Industry in Ghana and the measures to minimize banking distress is a matter of considerable interest to stakeholders, investors, scholars, managers, regulators, creditors, and other employees.

Also, **Opler and Titman (1994)** used market share and sales growth as proxies of performance and found that the relationship between firm performance and financial distress is negative and significant.

Similarly, using a sample of 277 firms from eight East Asian economies, the data collected were analyzed using a regression model when **Tih Koon Tan (2019),** explored the relationship between financial distress and firm performance during the Asian Financial Crisis of 1997-1998. The results suggested that financially distressed firms underperform relative to non-financially distressed firms during a financial crisis.

Likewise, **Beltratti and Stulz (2009)** studied the bank stock returns across the world during the financial crisis period from July 2007 to the end of December 2008. Their study showed that large banks with more deposit financing at the end of 2006 displayed significantly higher stock returns than during the crisis. By the number of banks that failed as a result of financial distress over the last decades all over the world, it is convincing to say that financial distress greatly affects profit or operating cash flows negatively.

Hellen (2013), in her study on the effect of financial distress on the financial performance of commercial banks in Kenya, over 5 years i.e. 2008-2012. The study also showed that financial distress had a significant effect on the financial performance of banks where performance was negatively affected.

Tan (2012), in his study on the impact of financial distress on a firm's performance, using the regression analysis and using financial leverage as a proxy for financial distress found that financially distressed firms underperform. This means that a firm's performance deteriorates during financial distress.

On the other hand, **Anouze (2010, p. 3),** reviewed the impact of the financial crisis, banks' health, and financial regulation on banking performance in the Gulf region for the period 1997 to 2007. His overall finding shows that Conventional banks performed well during the political crisis, whereas, Islamic banks performed better during the financial crisis. Specifically, the result confirms that large and medium-sized GCC commercial banks are more efficient than the medium size **(Anouze, 2010).** Among the various kinds of literature discussed above, their findings expressed that financial distress has a negative relationship with financial performance. However, according to the study by **Bariviera, Belén Guercio, & Martinez, (2014),** globally competitive financial services can only be achieved in the banking sector if financial distress is well managed by banks. Therefore, it was imperative to assess how to manage the financial distress of the selected Rural Banks in Ashanti to enhance their performance for the betterment of the Ghanaian economy.

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Review of Related Theory

Entropy theory

The Entropy theory, also known as the Balance Sheet Decomposition Measure theory says that it is possible to find the potential risk of financial distress by carefully examining the changes in the balance sheet **(Aziz and Dar, 2006).** According to this theory, if a firm is not capable of maintaining an equilibrium state in its balance-sheet component (Asset and liability) and is not able to control them shortly, it is more likely to foresee distress **(Aziz and Dar, 2006).** According to the theory, financial distress management works well if the banks pay particular attention to the changes that occur in the balance sheet and respond to them when appropriate. The importance of this theory to this study emanates from the fact that Financial Distress does not occur at once, it starts showing signs on the balance sheet figures before its full occurrence, therefore it speaks to the management of banks to be very vigilant of the changes occur in the balance sheet figures and assessed them well to prevent foreseeable financial distress.

Cash Flow Theory

According to the Cash flow theory of **Beaver (1966),** a firm is viewed as a 'reservoir' of liquid assets which is supplied by inflows and drained by outflows. **Beaver (1966)** stated the following four propositions in respect of this theory:

i. The larger the reservoir the firm has, the smaller the probability of its failure;
ii. The larger the net liquid-asset flow from operations (i.e., cash flow), the smaller the probability of failure;
iii. The larger the amount of debt the firm has, the greater the probability of its failure; and
iv. The larger the fund for the operating expenses of a firm, the greater the probability of its failure.

Beaver (1966), further argued that management of financial distress is possible when the banks keep larger reservoirs through cash inflows because the reservoir provides a buffer against variations in the flows. The relevance of the theory to this study is its capacity to demonstrate to banking fraternities, the circumstances that can lead them to face the risk of failure and how they can save themselves from distress by making sure to maintain a larger reservoir through inflows.

Liquidity and Profitability Theory

According to **Hashi (1997),** when the firms' indicators (liquidity and profitability) are good it is perceived as healthy, but when the indicators are poor, it is perceived as unhealthy and at risk of bankruptcy. To demonstrate a lower risk of bankruptcy, the two indicators above (Liquidity and Profitability) must take a positive and high-level value. This theory suggests that if the firm's growth rate is significantly greater than its internal rate of return, irrespective of the good profitability of the firm, it can fail and its revenue flow would become inadequate to finance the expenses. With this, the firm would be unable to pay its obligations if it is highly indebted. The theory is impactful to this study as it draws the attention of the banks' practitioners that, whenever the growth rate of the bank is greater than the profit, it is a sign of distress. To manage the risk of financial distress, the Bank's profitability should always be greater than its growth rate.

RESEARCH METHODOLOGY

The study was conducted using a quasi-experimental design. A population of 184 management staff from 29 rural banks in the Ashanti region was used, out of which 126 were sampled for the study using probability sampling techniques. The size of the sample was determined by using Slovin's formula.

The study adopted the following data: Financial Distress Data; Financial Performance Data; Financial Performance Indicators Data, Monthly Reserve Data; Monthly Prudential Returns Data; and Financial Statements Data, all were obtained from secondary sources; while Questionnaire or Survey Data, were obtained from a primary source, specifically from respondents of the questionnaire. This indicates that both Primary and Secondary Data were used in this study.

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Data collected went through cleaning to remove duplicates, unwanted outliers, and inconsistencies and to fix incorrect, corrupted, and incomplete data within the dataset. Also, the compiled data underwent checking, editing, and coding to remove all abstract information, which made the data clear, legible, relevant, and appropriate. Coding was done to convert verbal responses to numerical codes and it took place after data collection. The SPSS version 21 and Microsoft Excel software were employed to process the data to produce the output.

The study employed the following statistical tools to analyze the data using the software of SPSS version 21 and Microsoft Excel: Descriptive Statistics (Arithmetic Mean, Standard Deviation, Financial Ratios); Inferential Statistics (Regression Analysis, Pearson Correlation, and ANOVA); Standard Diagnosis Method of Salmon (1993), and Altman's Z-Score model of 1993.

RESULTS AND DISCUSSION

The discussion of the results is done according to the four (4) specific objectives of the study and the analyses were presented in relation to the same four (4) specific objectives.

Descriptive Statistics

The first specific objective of the study is to describe the state of financial distress management and financial performance of the selected Rural Banks in the Ashanti region. Table 4.1 below presents the summary of the descriptive statistics meant to give general descriptions of the dependent and the independent variables.

Table 4.1: Descriptive Statistics for FDM and Financial Performance

Name of Rural Bank	**Z-Score**	**ROA**
Asokore Rural Bank Ltd.	**0.3117**	**0.0016**
Adansi Rural Bank Ltd.	**0.1265**	**0.0088**
Okomfo Anokye Rural Bank Ltd.	**0.3995**	**0.0025**
Atwima Mponua Rural Bank Ltd.	**0.6599**	**0.0153**
Nwabiagya Rural Bank Ltd	**0.3401**	**0.0100**
Otuasekan Rural Bank Ltd.	**1.2225**	**0.0199**
Sekyedumase Rural Bank Ltd.	**-2.0564**	**-0.1113**
Sekyere Rural Bank Ltd.	**0.6174**	**0.0050**
Bosomtwe Rural Bank Ltd.	**0.4447**	**0.0166**
Nsutaman Rural Bank Ltd.	**-1.2276**	**-0.1024**
Mean	**0.0838**	**-0.0134**
Standard Deviation	**0.975**	**0.049**
Benchmark	**Z > 2.6 = Safe** **Z < 1.1 = Distress** **1.1< Z < 2.6 = Gray Zone**	**1- 0.03**

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Description of the State of Financial Distress Management

The average value of Financial Distress Management (FDM), as a means of measuring how banking distress is being managed, is 0.0838. This average value falls short of the minimal threshold of 1.1, as established by the Altman Z-Score Model. This indicates inadequate management of financial distress within the subset of surveyed Rural Banks during the study timeframe. This accounted for the abysmal financial performance of the sampled Rural Banks as recorded in the overall descriptive statistics table above as -0.0134.

Description of the State of Financial Performance

With regard to Financial Performance, the Banks' ability to use their assets in generating income, as measured by dividing Net Income after Taxes by Total Assets, was -0.0134 on average as shown in Table 4.2 above. This figure falls below the target range of 0.01 (1%) to 0.03 (3%). which signified poor performance generally recorded by the sampled Rural Banks in the Ashanti Region.

Description of the State of Capital Adequacy

Regarding the explanatory variables, the Mean value of the Capital Adequacy ratio, as measured by core capital and total capital to total risk-weighted assets, which indicates banks' ability to absorb problems emanating from assets value depreciation/deterioration is 6.95% with a minimum of -16.39%a and a maximum of 20.62%. This Mean value of the Capital Adequacy ratio of 6.95% is lower than the prudential average ratio of 10%. This indicates that most of the sampled Rural Banks in the Ashanti Region had not been meeting the regulatory requirement of 10% prescribed by the Bank of Ghana within the study period, this was the case in the study of **Nasieku (2014),** who opined that, it is expected that a bank with a low capital ratio to be less liquid.

Table 4.2: Descriptive Statistics for Determinants of FDM

	N	Minimum	Maximum	Mean	Std. Deviation
Capital Adequacy	**10**	**-.1639**	**.2062**	**.069450**	**.0979483**
Asset Quality	**10**	**.0510**	**.3762**	**.117450**	**.0743823**
Operational Efficiency	**10**	**.3699**	**1.6279**	**.806590**	**.3484536**
Liquidity	**10**	**.8935**	**1.1032**	**.990170**	**.0615229**
Corporate Governance	**10**	**5.40**	**6.80**	**6.2560**	**.49106**

Description of the State of Asset Quality

The Mean value of Asset Quality, as measured by the ratio of loan loss provisions to total loan, is 11.75% with a minimum of 5.10% and a maximum of 37.62%. It was higher than its international limit, which is 2% according to **Al-Smadi and Ahmad, (2009).** This Mean value of 11.75% signifies the average credit risk of the sampled Rural Banks and expresses that 11.75% of all loans granted by sampled Rural Banks in the Ashanti region are likely to go bad. It might be due to either holding less qualified loans or a less prudential provisioning policy might cause the credit risk of the sampled Rural Banks.

Description of the State of Operational Efficiency

With regard to Operational Efficiency, the Banks' ability to expend the revenues generated on operations, as measured by total operating expenses to total revenue is 80.66% on average, with a minimum of 36.99% and a maximum of 162.79%. The overall operating expenses Mean ratio of 80.66% as shown in Table 4.1 above indicated that the sampled Rural Banks used to keep very high operating expenses and this accounted for a very low earnings performance of -1.34 displayed in the overall descriptive statistics table above. This means,

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on average the banks spent 80.66% of their revenue generated as against the Bank of Ghana's prudential minimum expenditure requirement of 70%.

Description of the State of Liquidity

The Mean score of Liquidity, as measured by quick assets to total liability, is 99.02% and ranges from a minimum of 89.35% to a maximum of 110.32%. The Mean of 99.02% is far higher than the prudential minimum requirement of 40% liquidity reserve. This record is a sign of the selected banks' intensive deposit mobilization effort displayed. This average value of 99.02% demonstrates that the sampled Rural Banks are adequately liquid and free from liquidity problems. The increase in the ratio could mainly be attributed to higher growth in deposits and higher growth in total liquid assets compared to the growth in total short-term liabilities.

Description of the State of Corporate Governance

On the account of Corporate Governance, the banks' overall Mean value of corporate governance structure which was measured using the **Standard Diagnosis Method of Salmon (1993)** is 6.26, with a minimum of 5.40 and a maximum of 6.8. The Mean value of 6.26 is

below the benchmark set by **Salmon (1993)** which has been widely used by researchers globally. According to the **Standard Diagnosis Method of Salmon (1993)** cited in **Lorsch (2000),** a score of 7.2 (90%) out of 8.0 (100%) is recommended as a good governance score. Based on **Salmon's (1993)** assertion and recommendation, the overall corporate governance structure of the sampled Rural Banks was not good and discouraging. This is why the sampled Rural Banks were operating with very high expenses and with abysmal performance.

Determinants of Financial Distress Management

The second specific objective of the study is to assess the determinants of financial distress management of the selected Rural Banks in the Ashanti Region. To analyze the determinants of financial distress management, it was necessary to examine the relationship between the determinants identified and financial distress management. Therefore, the study used multiple regression analysis techniques to identify the determinants of financial distress management. The result is presented in Table 4.3 below.

Regression Model Summary

The coefficient of determination (R square value) from Table 4.3 above is 0.991. This indicated that the predictor variables (Capital Adequacy, Asset Quality, Operational Efficiency, Liquidity, and Corporate Governance) used in the study can be relied on, to explain 99.1% of the variability of the Financial Distress Management of the selected Rural Banks in the Ashanti region. If this is the case, then the variability due to other factors that are not studied in this current research was 0.90%. Thus, based on the findings, it is clear that holding other factors constant, Capital Adequacy, Asset Quality, Operational Efficiency, Liquidity, and Corporate Governance contribute to a 99.1% increase in the banks' Financial Distress M management. From the table also, the adjusted R square is 0.981 which measures the reliability of the results. This signifies that the study results are 98.1% reliable and therefore the model results are significant and reliable in explaining the influence of the independent variables on the dependent variable. The **R-value** of 0.996 depicts that there is a strong and positive relationship between each of the independent variables and Financial Distress Management.

Table 4.3: Regression Results of the Determinants of FDM

Variables	**Coefficients**	**Std Error**	**t-test**	**Sig.**
Constant	**-6.542**	**1.569**	**-4.168**	**0.014**
Capital Adequacy	**5.541**	**1.645**	**3.369**	**0.028**

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Asset Quality	**1.204**	**1.920**	**2.627**	**0.045**
Operational Efficiency	**-0.262**	**0.158**	**-1.661**	**0.172**
Liquidity	**3.861**	**1.376**	**2.806**	**0.049**
Corporate Governance	**0.915**	**0.153**	**5.971**	**0.004**
F-Statistics	**92.548**	**-**	**-**	**0.000**
F (Critical Value)	**6.26**			
R	**0.996**			
R^2	**0.991**			
Adjusted R^2	**0.981**			

a. *Dependent Variable: Financial Distress Management (FDM)*

b. Predictors: (Constant), Capital Adequacy, Asset Quality, Operational Efficiency, Liquidity, Corporate Governance

F-Statistics of the Regression Model

The F-statistics determines the reliability of the model developed in explaining the relationship between variables. **Table 4.2** above presents the F-statistic, which is used to test the significance of the relationship between Financial Distress Management (FDM) and the independent variables.

From Table 4.3 above, the F-value is 92.548 with a distribution of F(5,4). Also, the probability of observing a value greater than or equal to 92.548 is less than 0.05, as indicated by the significance value of 0.000 testing at a 5% level of significance. Since the F-statistics of 92.548 is greater than the critical value of 6.26, it is strong evidence that the regression model developed is statistically significant. The significance value which is less than 0.05 is an indication that the model is statistically significant; the relationship between the variables is also statistically significant, and all independent variables significantly relate to Financial Distress Management.

Regression Results and Analysis of FDM and its Determinants

From the findings in above Table 4.3, the established multiple regression model is:

$$\mathbf{Y = -6.542 + 5.541Ca + 1.204Aq - 0.262Oe + 3.861Liq + 0.915Cg + \varepsilon}$$

From the model above, it is clear that Capital Adequacy, Asset Quality, Liquidity, and Corporate Governance variables directly affect Financial Distress Management (FDM) as all the coefficients are positive, while Operational Efficiency negatively affects Financial Distress Management. The study findings are discussed below:

Capital Adequacy

From the regression model above, Capital Adequacy is directly and significantly affecting Financial Distress Management with a p-value of 0.028. This demonstrates that a unit increase in Capital Adequacy would bring 5.541 units increases in the level of managing financial distress. The implication is that, as a bank increases capital, it becomes strong enough to absorb losses; continue operations even in distressed environments; and reduce the likelihood of failure and/or insolvency. This finding is consistent with **Bou-Said and Saucier (2003), Poghosyan and Cihak (2009), and Sahut and Mili (2011)** who found higher Equity to Assets ratio or Adequate Capitalization as variables capable of increasing financial distress management or reducing the

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likelihood of failure. According to **Schütz (2014),** this finding confirms the economic theory that the probability of financial distress is negatively correlated with the capitalization of a bank. **Adeyemi (2012)** concluded that capital inadequacy was the the main cause of banks' poor performance and failure in Nigerian banks and therefore a factor in financial performance. However, it is not consistent with **Yauri et al. (2012)** who argued that increasing capital only contributes to short-term improvement in liquidity position and asset quality and not reducing financial distress.

Asset Quality

Also, according to the model, Asset Quality positively and significantly affects Financial Distress Management. Based on the Beta coefficient, a unit increase in Asset Quality would increase the level of Managing Financial Distress by 1.204 units and vice versa, this is because the higher the asset quality, the lower the credit risk. Also, the t-value = 2.627 falls within the critical region of ±2.262, and the p-value of 0.045 which is less than 0.05 significant level, signifies that Asset Quality significantly influences bank financial distress management during the test period.

The positive but significant effect of Asset Quality on FDM is consistent with **Bou-said and Saucier (2003)** who identified a statistically significant and positive effect of Asset Quality on the probability of managing distress for the 1990s Japanese banking distress. However, this study disagreed with the findings of **Akhtar and Hayati (2016),** whose study revealed that the Asset Quality of the Islamic banking system did not significantly impact the management of financial distress.

Liquidity

In respect of Liquidity Management, the findings conclude that Liquidity has a positive and significant effect on Financial Distress Management at p=0.049, which is less than 0.05 significant level, and also, its t-value of 2.806 falls within the critical region of ±2.262. This indicates that a unit increase in Liquidity would lead to 3.861 unit increases in Financial Distress Management and vice versa.

This finding is consistent with **Konstandina (2006) and Schütz (2014),** who identified that banks with low lending activities are not likely to face the difficulty of repaying short-term liabilities and not be exposed to bank distress and failure. It also agrees with the study of **Cheluget et al. (2014),** which confirmed that low liquidity had a significant influence on financial distress management and led to the failure of insurance companies in Kenya. On the other hand, **Sahut and Mili (2011) and Bou-Said and Saucier (2003)** disagree with this finding. Their study showed that liquidity did not appear to be a significant determinant of managing the financial distress of banks. This could be because the deposit insurance scheme of the banking sector makes deposits flee to safer banks steadily **(Bou-Said and Saucier, 2003).** This finding is also not consistent with **Altman (1968) and Thai et al. (2014),** whose study identified liquidity as having a negative coefficient but not significant in predicting and managing financial distress. However, the study conducted by **Idris (2008)** confirms that liquidity is significant in predicting and managing financial distress.

Corporate Governance

Moreover, the study found Corporate Governance to have a positive and significant effect on Financial Distress Management with p=0.004, which is less than a 0.05 significant level. This is an indication that efficient and effective Corporate Governance practices by the selected Rural Banks would increase the management of Financial Distress by a factor of 0.915 units.

This finding is in agreement with the study of **Samanhyia S., Kofi Mintah O.**, and **Anisom-Yaansah F. (2016).** According to their study, companies that practice good governance principles are seen to be financially stable and thus distance themselves from being financially distressed. The study concluded that poor corporate governance is partly responsible for financial distress and that smaller board size negatively affects corporate performance.

However, the model also showed that holding the predictor variables constant at zero (0), Financial Distress Management for the selected Rural Bank on average will be 6.542 units between 2016 and 2020.

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Effect of Financial Distress Management on the Financial Performance

The third specific objective of the study is to analyze the effects of **Financial Distress Management** on the **Financial Performance** of the selected Rural Banks in the Ashanti Region. Therefore, the research sought to examine the effects financial distress management has on financial performance. The regression analysis was used to determine the effects of financial distress management on financial performance. Table 4.4 below presents the results:

Regression Model Summary

R squared is the coefficient of determination that tells us the variation in the financial performance due to changes in Financial Distress Management. Therefore, from Table 4.4 below, the R^2 value of 0.909 indicates that the variations in the financial performance of Rural Banks are 90.9% explained by the variations in Financial Distress Management. The **adjusted R square** in Table 4.4 measures the reliability of the results. The **adjusted R Square** is 0.898, which indicates that the study results are 89.8% reliable, and therefore, the model result is significant and reliable in explaining the influence of financial distress management on financial performance.

R is the correlation coefficient, which shows the relationship between the study variables. From the findings shown in Table 4.4 below, there is a strong positive relationship between financial distress management and financial performance, as shown by an **R-value** of 0.953. According to **Hair et al. (2009**), R-Square is an indication of the goodness of fit of the data.

F-Statistics of the Regression Model

Table 4.4 below presents the F-statistic which is used to test the significance of the relationship between Financial Performance and Financial Distress Management. The results of the Analysis of Variance (ANOVA) indicate that the overall model is statistically significant. Further, the results imply that Financial Distress Management is a good predictor of the Financial Performance of the Sampled Rural Banks in the Ashanti region. This is because the F-statistic of 79.882 is greater than the critical value of 5.32 and the reported p-value of 0.000 is less than the conventional probability of 0.05 significance level.

Table 4.4: Regression Results of the Effect of FDM on Financial Performance

Variables	**Coefficients**	**Std. Error**	**t-test**	**Sig.**
Constant	**-0.169**	**0.018**	**-9.327**	**0.000**
Financial Distress Mgt.	**0.047**	**0.005**	**8.938**	**0.000**
F-statistics	**79.882**	**-**	**-**	**0.000**
F (Critical Value)	**5.32**			
R	**0.953**			
R^2	**0.909**			
Adjusted R^2	**0.898**			

a. Dependent Variable: Financial Performance (ROA).

b. Predictors: (Constant), Financial Distress Management.

Regression Results and Analysis of FDM and its Effects on Financial Performance

Based on the results contained in Table 4.4 above, the following linear regression model is established:

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$$Y = -0.169 + 0.047X + \varepsilon$$

The regression model shows that Financial Distress Management directly affects Financial Performance. This means that Financial Distress Management has a positive effect and is statistically significant with the Financial Performance of the sampled Rural Banks in the Ashanti Region at p-value = 0.000. This is an indication that a unit increase in the management of Financial Distress would increase Financial Performance by 0.047 units, and a unit decrease in Financial Distress Management would decrease Financial Performance by 0.047 units. Also, the regression model demonstrates that Financial Distress Management is statistically significant with Financial Performance at p-value = 0.000. This is confirmed by the F-Statistics above.

According to the model, in a situation where the selected Rural Banks are not managing Financial Distress at all, the banks would still record a performance of -0.169 units on average. It can also be seen that Financial Distress Management, with a beta of 0.953, expresses that it is the most important factor affecting performance that needs rapt attention as far as there is a need to improve the financial performance of the selected Rural Banks.

Synthesis of Improved Financial Distress Management System

The fourth objective of the study is to synthesize an improved financial distress management system to enhance the financial performance of the selected Rural Banks in the Ashanti Region. The study has suggested an improved financial distress management system that is strong enough to improve three components of the existing CAMELS system, thereby improving the financial performance of the selected Rural Banks in Ashanti to mitigate financial distress.

Overview of Existing CAMELS System

CAMELS is an acronym for six key performance parameters. **C** stands for Capital adequacy, **A** for Asset quality, **M** for Management capabilities, **E** for Earnings sufficiency, **L** for Liquidity position, and **S** for Sensitivity to market risk. CAMELS approach is a widely accepted and internationally acclaimed system of ratings of banks and other financial institutions. It was proposed in 1988 by the Basel Committee on Banking Supervision of the BIS (Bank of International Settlements). This approach is used by analysts and regulators to measure the performance and risk of financial institutions. The CAMELS system was introduced to effectively and efficiently assess the current and future potential risks the bank may face. It helps to identify the financial institution's strengths and weaknesses, the solvency and insolvency position of the institutions and also helps to identify a failing institution at the right time. However, the CAMELS system is not an activity-based system to help financial institutions to avoid failure, rather, an index-based system used to track the performance of the institutions in a standardized way. Since the introduction of the CAMELS system, banking distress still exists, meaning that something is lacking in the CAMELS system to regulate banking distress. This called for the researcher to synthesize an improved financial distress management system to improve the CAMELS system's financial performance, and reduce financial distress.

The improved financial distress management system newly introduced by the researcher to improve the components of the CAMELS system to enhance the Financial Performance and to reduce Financial Distress of the selected Rural Banks is the RCC-FP parameters. **RCC-FP** is an acronym interpreted as follows: **R** stands for 'Recapitalization at 5-years Interval'; **C** for Credit Reference Bureau; **C** for Credit Insurance; **F** for Fit and Proper Test; and **P** for Performance Contract Agreement. These parameters are aimed to improve three components of the existing CAMELS system introduced at BASEL I accord in 1988 and revised in BASEL II & III to act as a banking distress mitigation tool.

The components of the existing CAMELS system that are to be improved using **RCC-FP** are Capital Adequacy, Assets Quality, and Management Efficiency, which are the pillars that drive banks into distress, and when these are improved, it is firmly expected to have a trickle-down enhancement on the other remaining three parameters (i.e., **E**arnings sufficiency, **L**iquidity position, and **S**ensitivity to market risk)

System Characteristics

The characteristics of the CAMELS system are composed of **system components**, **system processes**, and

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system policy requirements. Each of these system characteristics is discussed in turn below:

System Components

The components of the CAMELS system are Capital Adequacy, Asset Quality, Management Capability, Earnings Sufficiency, Liquidity, and Sensitivity to Market Risk. Three of these components need to be improved or changed to make the system strong and efficient. These three components are Capital Adequacy, Assets Quality, and Management Capability. When these components are improved, it will have a trickle-down improvement in Earnings Sufficiency, Liquidity, and Sensitivity to Market Risk. These components are analyzed, improved, and discussed below:

Capital Adequacy (CAMELS System Component)

The idea behind this index was to enable regulators to check if institutions are complying with regulations about risk-based net worth requirements and also to examine whether the institutions have adequate capital to meet losses arising out of defaults, operational losses, natural calamities, disasters, etc. and still be financially safe and secure without any threat of insolvency to administer the operations successfully. The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures.

In measuring CAR, two types of capital are measured: tier-1 capital and tier-2 capital. Tier-1 capital is the pillar of the bank's going concern. The tier-1 capital is there to absorb losses and makes banks continue trading unabated. Tier-2 capital only absorbs losses in the event of a winding-up, and so provides a lesser degree of protection to depositors. Research has revealed that due to inflationary tendencies and deposit growth, as long as the firm maintains its state of capital adequacy without necessary increases, as it is in practice in Ghanaian banks, the more its capital deteriorates, which allows the bank's risk-weighted credit exposures to gain more strength to overshadow the sufficiency of the available capital for operations which automatically resulted in distress. Therefore, the new knowledge suggests that tier-1 capital needs to be improved regularly to become robust to sustain the efficient state of the bank's operation without insolvency. This can be done through regular capital inflows into the tier-1 capital to swallow the risk-weighted credit exposures. Therefore, "Recapitalization at 5-Year Interval" is introduced as new knowledge to ensure regular capital inflows to improve tier-1 capital. When tier-1 capital is improved, it will enhance tier-2 capital automatically. This is because the sustainability of tier-1 capital will raise net earnings, which in turn ensures more reserves and strengthens retained earnings, thereby improving tier-2 capital. The regular increase of minimum capital at intervals of 5 years would help resource the institutions from time to time to stand against massive withdrawals and to operate efficiently to improve the institutions' liquidity. The regular re-injection of capital would also help improve the Capital Adequacy Ratio and the Ratings proposed by the Basel Committee of Banking Supervision (BCBS).

Assets Quality

The asset quality index or ratio was mainly designed to indicate whether the asset's quality is improving or deteriorating so that necessary measures can be applied at the right time. Asset quality ratio is measured by dividing the Non-performing Loan (NPL) by the Total Loan Portfolio and multiplying by 100. The lower the ratio is, the better. NPL assets, which is a numerator of the ratio, are most of the time longer, making the ratio always deteriorating. The larger amount of NPL assets is due to ineffective credit administration. Credit administration becomes ineffective when the credit appraisal system and guarantor system are weak, which results in huge credit risk and eventually leads to huge NPL assets. The new knowledge introduced by the researcher suggests that the credit appraisal system and guarantor system, which have been used all while and are supposed to give a reasonable assurance for credit repayment, have long failed the banks and should be scrapped and replaced by the use of Credit Reference Bureau services and Credit Insurance.

Management Capability

According to the Basel Committee on Banking Supervision, the capability of the management is very

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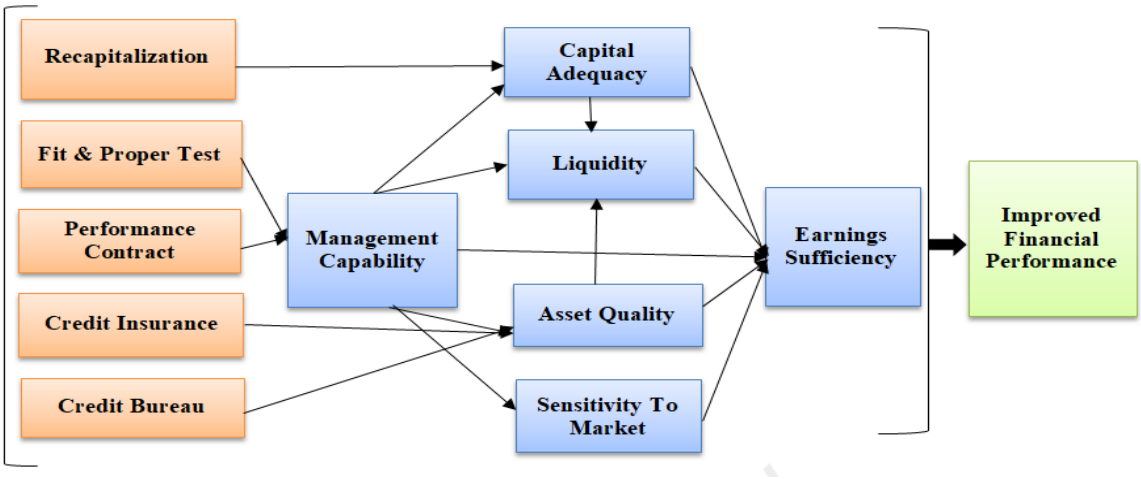
important to the well-being of every financial institution, and it must adequately balance the risk and return opportunities. The management must be active, open to new ideas and investment opportunities, and capable of exploiting new technology and innovations to maximize returns while minimizing risk. The management efficiency index was developed during Basel I, II, & III accord to be used by regulators to assess internal audit measures, clarity, transparency of communication from the management, quality of financial reporting, and also check the management's ability to minimize risk and maximize returns through new technology and innovations. The management efficiency ratio as a parameter of the CAMELS system is measured by dividing non-interest expenses by revenue. This ratio expresses the state of management capabilities in discharging duties. To improve this ratio to manage financial distress is to reduce non-interest expenses (the numerator of the ratio) while increasing revenue (the denominator of the ratio). Reducing non-interest expenses and increasing revenue calls for strong and efficient management skills. Now, the question is, how can we get a robust management team to deliver? An efficient management team can only be obtained if the existing recruitment and selection procedure is changed and improved. Therefore, the existing selection interview procedure for management staff needs to be improved. The new knowledge brought on board to improve management efficiency is to improve the selection procedure by adding the Fit and Proper Test and Performance Contract agreement to the existing selection interview. Using these three stages to screen management staff would present a strong management team with innovative skills. What this system is saying is that, after the selection interview, the applicants selected would go through a fit and proper test conducted by the Bank of Ghana (Main Regulator) for further screening, and the successful applicants have to sign a performance contract agreement for 2 years, subject for renewal.

Earnings sufficiency, Liquidity position, and Sensitivity to market risk (i.e., Other 3 CAMELS System Components)

The 4th, 5th, and 6th components of the **CAMELS** system are Earnings sufficiency, Liquidity position, and Sensitivity to market risk, respectively. Effective implementation of the RCC-FP parameters to improve capital adequacy, assets quality, and management capabilities would have trickle-down positive effects on Earnings sufficiency, Liquidity position, and Sensitivity to market risk. The regular 'recapitalization at 5-year Intervals' exercise to improve minimum capital requirement would sustain the liquidity position to be strong for efficient operation and performance. The Fit and Proper Test and Performance Contract agreement parameters would improve management efficiency, and with strong management capabilities and efficiency, earnings sufficiency would be enhanced, liquidity position sustained, and management sensitivity to market risk would also improve. Therefore, in summary, the **RCC-FP** parameters would also improve Earnings sufficiency, Liquidity position, and Sensitivity to market risk, apart from capital adequacy, asset quality, and management capability.

The integrated and interrelatedness operations of the above-explained improved Financial Distress Management system - **(RCC-FP)** – used to improve the parameters of the existing **CAMELS** system are presented diagrammatically below:

Figure 4.1: Synthesis of Improved FDM Parameters – RCC-FP System



Source: Designed by Adom Boachie (2024)

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System Processes:

Every system has processes, and so does the CAMELS system also have processes. A change or improvement of any of the system components comes with a change or improvement of its processes. One way to improve a system is to change or improve its process. Therefore, the changes and improvements done to improve the components of the CAMELS system with respect to capital adequacy, assets quality, and management capabilities call for changes and improvements in its process as a result of new knowledge brought on board.

Capital Adequacy

The tier-1 capital and tier-2 capital are added together and divided by risk-weighted assets to estimate a bank's capital adequacy ratio. The formula is stated below:

CAR = Tier-1 Capital + Tier-2 Capital / Risk-Weighted Assets

The Previous process allows the regulating institutions to increase the Tier-1 capital at their discretion or whenever the regulatory bank (Bank of Ghana) finds it necessary to increase the minimum capital requirement. This system has done more harm than good and sometimes made some of the banks relent in their effort to mobilize equity or ordinary share capital to strengthen tier-1 capital. By this time round, the process is changed with a new strategy. The new knowledge suggests that there should be a new capital injection into tier-1 capital every 5 years to either maintain or increase the status of capital sufficiency to sustain inflation, deposit growth, absorb the risk-weighted assets, and provide the greatest protection to depositors and creditors. The banks would not wait to increase the tier-1 capital at their discretion or wait for the regulatory bank to increase minimum capital when it finds it necessary; rather, the regulator is to be mandated to prescribe the minimum amount of capital to be injected to improve the existing capital sufficiency in every 5- years while mobilizing ordinary shares capital to increase tier-1 capital should be a continuous exercise by the regulating banks. The capital sufficiency ratio should not be below the benchmark of 10%, as prescribed by the Bank of Ghana. It should be either 10% or more.

Asset Quality

The previous process of managing the quality of credit depended on the credit appraisal and guarantor system. Credit Managers had the task of assessing loan applications thoroughly by interviewing the borrower for responses and using the information obtained to prepare credit appraisal reports, conduct background information of the borrower, and also visit the location of the borrower. The aim of the appraisal is that the bank would get back the money that it lends to its customers. During this time, most of the borrowers do not give credible information to the banks, which makes it difficult for the banks to track repayment, and this has led to huge NPL assets. This huge NPL asset makes the numerator of the Asset Quality Ratio bigger and deteriorates the quality of the asset. The previous process of credit appraisal to reduce NPL assets has now changed, and with the new knowledge on board, replaced with the processes of **Credit Reference Bureau (CRB)** services. With this new process, the banks and other financial institutions would supply CRB with raw data and credit reports of individuals' financial behavior. Credit reference bureau, which functions as a database of information regarding credit and borrowers, will use the credit data obtained from the banks and the information they have on their database in respect of the borrower, to create credit scores and make credit rating information on individuals' creditworthiness and make it available to banks and other financial institutions. The score could be positive or negative. The borrower who has a positive credit score or credit history stands more chance to get the loan and vice versa. This process helps lenders to filter good credit applicants from bad ones and alerts lenders not to give loans to bankrupt borrowers. These bankrupt borrowers add to the deterioration of the bank's asset quality which mostly leads to financial distress. If this new process is effectively implemented and followed would reduce NPL assets and strengthen the quality assets of the banks.

Management Capability

The previous process of selecting key management staff of banks and other financial institutions was through a

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selection interview. Previously, after the recruitment process, a selection interview was organized to select the desirable applicant who fits the vacant position. The offer letter is subsequently given to the successful applicant to start work on the date stated in the offer letter. The successful applicant is supposed to serve six months' probation period for confirmation. At this moment, with the new knowledge on board, this process is due to be improved to include fit and proper tests and performance contract agreements. This new process suggests that after the recruitment and selection interview process, the applicant has to pass through a fit & proper test organized by the regulator (Bank of Ghana) to prove his/her fitness and propriety of the vacant post. The applicant who would cross the fit and proper test hurdle and receive the offer letter would be taken through the third stage to sign a performance contract agreement for 2 years, subject to renewal, before commencing work. Unlike the previous process of selection, now the applicant would pass through three stages - Interview selection; Fit & Proper Test; and Performance contracting - before commencing work.

System Policy Requirement

Capital Adequacy

This Recapitalization parameter and Capital Adequacy of the CAMELS Rating system have policies backing it in Ghana. The policy for minimum paid-up capital is specified in the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930), section 28, sub-section 1 and it reads ***"A bank or specialized deposit-taking institution shall ensure that while in operation, it maintains in the country a minimum paid-up capital, unimpaired by losses including accumulated losses or other adjustments, as may be prescribed by the Bank of Ghana for banks and specialized deposit-taking institutions".*** However, the Act failed to give a timeline as to when the Bank of Ghana has to set up the minimum capital requirement. This means the Bank of Ghana at its discretion will determine when to increase the minimum capital requirement. This has been a problem for many years causing banking distress. Therefore, the policy about re-injection of new capital or new minimum capital requirement has to be changed: the individual rural banks should add this policy of 'Recapitalization at 5-year intervals' in their internal policy, or if a policy about re-injection of new capital exists, it should be amended to reflect this policy of 'Recapitalization at 5-year interval' to regularly help improve tier-1 capital which in turn enhance financial performance and prevent financial distress. Also, the regulator (Bank of Ghana) should prepare a policy manual that would complement the Act (Act 930) to accommodate the time frame of a '5-year interval' for new minimum capital requirements to improve the sufficiency of the existing capital of financial institutions regularly. This would guide both the regulator and the regulating institutions on their responsibility towards capital improvement without relenting in their compliance effort of this section of the Act and necessary sections to this policy in their internal policy.

Assets Quality

As of the date of this research, the researcher has not noticed any available policy, both national or internal, restricting the Rural Banks and other financial institutions to insure their credit against risk. This has necessitated the need for a new policy to be amended in the internal policy of the Rural Banks. Rural Banks and other financial institutions should amend their internal policy to reflect the use of **credit insurance** to mitigate credit risk. Also, the regulator (Bank of Ghana) should have a new policy framework to guide the use and implementation of credit insurance policies across all Rural Banks and other financial institutions in aid of reducing credit risks and improving financial performance.

With respect to the use of **Credit Reference Bureau** services, the Credit Reporting Act, 2007 (Act 726) provides a framework for credit reference bureaus and establishes conditions for credit reporting and its related matters to guide credit bureau operations in financial institutions in Ghana. Section 26 of the Act, subsection 4 reads: ***"A financial institution shall conduct a search with respect to the applicant's credit record on the database of one or more credit bureaus licensed under this Act before it makes a decision to grant or refuse an application for credit or other facilities"***

The problem is that, at the time of this research, none of the selected Rural Banks in the Ashanti region were making good use of credit bureau services nor having, in their internal policy, the use of credit reference bureau services. Also, the regulator has extremely relaxed to enforce the financial institutions to comply with

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this section of the Act. The non-compliance with this section of the Act by Rural Banks and other financial institutions, and the regulator's laxity to enforce the Rural Banks and other financial institutions to comply, is the cause of huge non-performing loans in Ghanaian banks, causing banking distress. This research is a wake-up call to the regulator to sit up and ensure that there is full compliance with this section of the Act by all rural banks and other financial institutions. Moreover, Rural Banks and other financial institutions should amend their internal policy to contain the use of Credit Reference Bureau policy to help screen loan applicants, thereby reducing credit risk, which is a major factor of banking distress.

Management Capability

A policy is needed to re-enforce Fit and Proper Test so that the rural banks and other financial institutions would be bound to adhere to its compliance. Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930), section 60, subsection (6) and (10) state that:

Subsection (6): ***"The Bank of Ghana shall not grant approval under subsection (1) if, in the opinion of the Bank of Ghana, that person is not a fit and proper person to be appointed as a Chief Executive or Deputy Chief Executive of a bank or specialized deposit- taking institution".***

Subsection (10): ***"Where the Bank of Ghana considers that a director or a member of the key management personnel is not a fit and proper person to hold that position based on a change in circumstances or a notification under subsection (2) of section 58, it shall direct the removal of that director or key management personnel after hearing the representations made by that bank, specialized deposit-taking institution, or financial holding company".***

The Fit and Proper person can only be determined when that person goes through the Fit and Proper Test conducted by the regulator (Bank of Ghana). During the study period, no fit and proper test policy manual was sighted as an operational guide in the selected Rural Banks, nor did the researcher sight the availability of a manual published by the regulator that contains the full processes and operations of the fit and proper test. The regulator (Bank of Ghana) has also failed to enforce the compliance of this Act as none of the selected Rural Banks, during the study period, had ever practiced this policy before. It is therefore required that the Rural Banks and other financial institutions amend their existing internal policy to reflect the use of the **Fit and Proper Test** as a new policy to guide them in selecting their key management personnel.

Regarding the **Performance Contract agreement**, there is no policy nationally or internally sighted by the researcher that restricts both the Rural Banks and the regulator from resorting to performance contracts between the financial institutions and their key management personnel. The policy about Performance Contract Agreements has to be enacted as a new national policy and reflected in the internal policy of the Rural Banks and other financial institutions. The contract period is for two years. The Bank of Ghana as a regulator is also required to have a new national policy to embrace the practice of Performance Contract Agreements between financial institutions and their key management staff for a period of 2 years, subject to renewal after meeting the key performance indicator threshold during their appointment. The policy should accommodate performance contract agreements for all key management staff of Rural Banks or other financial institutions.

In summary, the policy reflection of the combined use of performance contracts and the Fit and Proper Test discussed above would bring efficiency within the management setup, and it would force them to perform rigorously to achieve the institutional objectives, improve financial performance, and reduce financial distress.

System Efficiency Indices

From the new knowledge acquired, a good and improved Financial Distress Management (FDM) system should have **RCC-FP** parameters to improve the existing **CAMELS** system. With this FDM system parameter:

- The 'Recapitalization at 5-year interval' **(R)** would resource the selected Rural Banks in Ashanti to

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improve their capital base, improve liquidity position, improve the Capital Adequacy Ratio in the CAMELS system, improve earnings sufficiency and solve minimum capital requirement problems, thereby improving financial performance and reducing financial distress.

- The use of **'Credit Reference Bureau'** and '**Credit Insurance' (CC)** would help reduce credit risk, specifically NPL, which forms the greater portion of the Rural Banks' assets deterioration to its barest minimum, improve assets quality ratio in CAMELS system, makes the banks liquid, and improve earnings sufficiency, thereby improving financial performance and reducing financial distress in Rural Banks.

- The use of the **'Fit and Proper Test'** and **'Performance Contract agreement' (FP)** would improve the strength of the management capabilities, improve the management efficiency, boost the management efficiency ratio in the CAMELS system, and task the management team to efficiently deliver to achieve key performance indicators, thereby improving financial performance and reducing financial distress in Rural Banks.

- With an improved and efficient management capability due to the Fit and Proper Test and Performance Contract agreement, Earnings Sufficiency would be achieved, the management sensitivity to assess market risk would be improved, and Liquidity Position would be strong and significant for institutions' day-to-day operations. All these three parameters in the CAMELS system will be achieved and improved as a result of efficient, new, and innovative ideas brought on board by the management team due to the use of the Fit and Proper Test and Performance Contract agreement.

However, this new improved Financial Distress Management (FDM) system – **RCC-FP -** introduced would work best if all the five parameters of the system (**i.e., RCC-FP)** introduced as a new strategy to improve the existing CAMELS system, are implemented together and the status of their ratios fall within the acceptable benchmark prescribed by the regulator (Bank of Ghana).

SUMMARY, CONCLUSION, AND POLICY IMPLICATIONS

Summary of Findings

Description of the State of FDM and Financial Performance

The first specific objective of the study is to describe the state of Financial Distress Management and Financial Performance of the selected Rural Banks in the Ashanti Region.

Based on the overall descriptive statistics in Table 4.1 above, the Mean score of 0.0838 recorded for Financial Distress Management (FDM) is below the minimum threshold of 1.1 set by Altman. This demonstrates that the financial distress in the sampled Rural Banks in the Ashanti Region was not effectively managed during the study period.

Concerning Financial Performance, the Banks' ability to use their assets in generating income, as measured by Net Income after Taxes to Total Assets, was -0.0134 on average which is below the target range of 0.01 (1%) to 0.03 (3%). This means that the overall performance of the sampled Rural Banks in the Ashanti region was poor and discouraging.

Determinants of Financial Distress Management

The second Specific objective of the study is to assess the determinants of financial distress management of the selected Rural Banks in the Ashanti Region.

From the result of the regression analysis in Table 4.2 above, the findings were that Capital Adequacy, Asset Quality, Liquidity, and Corporate Governance have positive and significant influences on Financial Distress Management, by the following factors: 5.541, 1.204, 3.861, and 0.915 respectively, whereas Operational Efficiency has negative and insignificant effects on Financial Distress Management of the selected Rural Banks in the Ashanti Region by a factor of 0.262. Therefore, Capital Adequacy, Asset Quality, Liquidity, and

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Corporate Governance are determining factors.

Effect of Financial Distress Management on Financial Performance

The third objective of the study is to evaluate the effect of Financial Distress Management on the Financial Performance of the selected Rural Banks in the Ashanti Region.

The regression results show that Financial Distress Management has positive and statistically significant effects on the Financial Performance of the sampled Rural Banks in the Ashanti Region. This indicates that when Financial Distress Management increases by one unit, Financial Performance increases by 0.047 units and vice versa.

The Synergy of Improved FDM System to Enhance Financial Performance

The fourth objective of the study is to synthesize an improved financial distress management system to enhance the financial performance of the selected Rural Banks in the Ashanti Region.

Based on the rationalization, the synergetic combination of **Recapitalization at 5-year intervals, use of Credit Bureau, Credit Insurance, Fit and Proper Test, and Performance Contract Agreement** proposed by the researcher to improve the components of the CAMELS system would have a strong, positive, and significant influence to improve Financial Performance and reduce financial distress. The overall implication is that the synergy of these **RCC-FP** parameters introduced is capable of producing a positive effect greater than the sum of their individual effects.

Conclusion

Based on the above summary of the findings of the study, the following conclusions are drawn.

For the first objective of the study and concerning its summary of findings, the study concludes that:

- The sampled Rural Banks in the Ashanti region did not manage their financial distress well during the study period, which resulted in poor and discouraging financial performance within the study period.

Flowing from the summary of findings of specific objective two, the study concludes that:

- Capital Adequacy, Asset Quality, Liquidity Management, and Corporate Governance have a positive and significant influence on financial distress management, and therefore, they are determining factors, whereas Operational Efficiency has a negative and insignificant influence on Financial Distress Management and, therefore, not a determining factor.

Regarding the specific objective three summaries of findings, the study concludes that:

- Financial Distress Management has a strong, positive, and significant effect on Financial Performance.

Relating to the summary of findings of the fourth specific objective, the study concludes that:

- The **RCC-FP parameters** (Recapitalization at 5-year Intervals; Credit Bureau; Credit Insurance; Fit and Proper Test; and Performance Contract Agreement), brought on board through rationalization by the researcher to improve the components of the CAMELS system, would have strong, positive and significant influence to improve Financial Performance and mitigate financial distress.

Policy Implication

Based on the key findings and conclusions drawn from the study, the researcher provides the following specific Policy recommendations to various stakeholders of the Rural Banking sector, especially Bank of Ghana, the main regulator; ARB Apex Bank, the mini regulator of Rural Banks; and Banking Practitioners:

ISSN No. 2454-6194 | DOI: 10.51584/IJRIAS |Volume X Issue II February 2025

1. It is therefore recommended that the Bank of Ghana, the main regulator, should come out with a policy that would accommodate the adoption of Altman's Z-Score model, in addition to traditional ratio-based indicators, to predict financial distress to give earlier warning sign of distress to banks and other financial institutions so that empirical solutions can be reached to avert any incoming financial constraints.

2. To reduce credit risk to improve financial performance and mitigate financial distress, it is recommended that the regulatory authority (Bank of Ghana) should expand its policy guidelines to include the introduction of Credit Insurance and the use of Credit Reference Bureau services, and also, enforce the Credit Reporting Act 2007, (Act 726) section 26, subsection 4 which request every financial institution to patronage credit reference bureau services. Banks and other financial institutions are also expected to amend their internal policy to include the use of credit reference bureaus and credit insurance to mitigate credit risk and enhance financial performance.

3. It is recommended that the Bank of Ghana as a regulator should institute a policy to reflect sporadic review of minimum capital requirements every five (5) years to cushion the banks' liquidity to absorb losses, continue efficient operations, and reduce the likelihood of failure and/or insolvency.

4. It is also recommended that the Bank of Ghana should introduce a policy framework to embrace Fit and Proper Test and Performance Contract strategies for all management staff of Financial Institutions to ensure effective and efficient management capabilities which would lead to massive improvement of financial performance and massive reduction of Financial Distress. The banks and other financial institutions should also amend their internal policies to include the practice of Fit and Proper Test and Performance Contracts.

In effect, it is recommended to adopt the RCC-FP system proposed above by the researcher to improve performance efficiency and reduce the rampant occurrence of financial distress because it catered to all recommendations outlined above.

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