

**CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF
FIRMS:**

A CASE OF LISTED COMPANIES ON THE UGANDA SECURITIES EXCHANGE

BY

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DECLARATION

I, Maureen Nabawagga, do hereby declare that this is my original work and has never been presented to any university or institution of higher learning for any academic award.

Signature..... Date.....

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APPROVAL

This is to certify that this dissertation was conducted by **Maureen Nabawagga** under our supervision and is ready for submission for the award of a Master's Degree in Business Administration of Kyambogo University.

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DEDICATION

This dissertation is dedicated to my dear parents Mr. & Mrs. Ssendagire and Siblings Deborah, Alex, John and Elijah for the key role they played in my education.

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LIST OF ABBREVIATIONS

USE.....Uganda Securities Exchange

CG.....Corporate Governance

ABSTRACT

The purpose of the study was to establish the effect of corporate governance practices on financial performance, a case of listed firms on the Uganda securities exchange. The study specifically examined the effect of board size, board independence and separation of ownership and control on return on sales, return on assets and return on equity. The study therefore adopted three hypotheses that were used to test the objectives and was guided by two theories, the agency theory and stakeholder theory. The study used a longitudinal research design adopting a quantitative approach. The study population was all firms on the Uganda securities exchange with a target population of fifteen firms. The study used regression analysis to address the study objectives, a Hausman specification test permitted use of the random effects model as the most appropriate. The study established that there is a significant effect of board size and separation of ownership and control on financial performance. However, it revealed that the number of non-executive members has a statistically insignificant effect on firm financial performance. The study therefore recommended that existing listed companies of USE should consider downsizing the board membership seeing that it has no ensuring benefits but rather increased costs resulting in poor or low returns and also advocate for increase in ownership concentration as this would increase financial performance.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the back ground of the research problems, general and specific study objectives, the scope of the study, and its significance. It also discusses corporate governance and financial performance.

1.1 Background to the study

1.1.1 Historical background

Generally, corporate governance is referred to as the set guidelines for which firms are run through processes and policies intended to guarantee investors that their resources are effectively managed with the objective of a return on their investment (Chibarinya, 2014). Among others, a firm's financial performance also depends on a board structure that assures business owners and managers have a common goal (Garzón Castrillón, 2021).

Institutional management is not a new phenomenon, it is believed to have originated in the United Kingdom following the bankruptcy of large corporations because of the selfishness among the managers who were entrusted with running these organizations (Armstrong et al., 2014; Bernile et al., 2018; Brickley et al., 1997). This led to a code of practice which brought into a structured way of thinking that companies should be managed in a way that can enhance protection of the shareholder and community interests while pursuing the objective of increasing financial performance. This later extended to the United States through the Sarbanes-Oxley Act, which offered instructions for incorporating institutional management practice in an organization's management (Jenter & Lewellen, 2015).

Accordingly, South Africa represents earlier efforts on the implementation of institutional management principles on the African continent such as the formation of the King Committee, which formulated the King I, King II, and later, The King III Assessment on South Africa's Governance Standards and practices heeding Sir Adrian Cadbury's recommendations to encourage institutional management practices that would impact on financial performance (Africa, 2009).

To date, corporate governance has become an area of interest even in developing countries such as Uganda due to its known influence on the company's financial performance. This includes the Companies Act, 2012, and the Institute of Institutional management in Uganda that increasingly require that institutional management becomes the core in firm management for its role in impacting on the financial performance. (Coates, 2014).

1.1.2 Theoretical background

Both the agency theory and the stakeholder theory, both of which are relevant in the field of corporate governance, serve as the theoretical foundation for the investigation that was conducted.

Jensen and Meckling's (1976) agency theory addresses delegation of authority between business owners and agents; and the stakeholder theory where Donaldson and Preston (1995) asserted that managerial decisions should reflect the interests of all stakeholders without letting any interest dominate others (Abdullah & Valentine, 2009).

The agency theory is relevant to this investigation since it clarifies the conflicts that happens between shareholders and the managers of the firm which influences the company's financial performance (Abdullah & Valentine, 2009; Kovermann & Velte, 2019; Turnbull, 1997) The stakeholder theory has been integrated in this study as a corrective measure in the governance of corporations by advocating for inclusion of all stakeholder interests in managerial decision making

thereby reducing the principle-agent problem. Accordingly, drawing on insights from both the agency and stakeholder theories, this study sought to analyse the relationship between institutional management and financial performance.

1.1.3 Conceptual background

Both institutional management and the financial performance of businesses served as the primary focuses of this study.

According to Garzón (2021), Corporate governance is described as a framework by which a firm is managed by the board entrusted with running it. It encompasses both internal governance which mainly focuses on the responsibilities of the board and management; and external governance which focuses on other concerned stakeholders.

There are several corporate governance measures and these include internal and external governance measures. Internal governance measures focus on composition of the board and management while external governance measures focus on external factors such as the goods and services markets. Internal governance measures are critical for a firm's long-term sustainability and owners often prioritize developing internal governance frameworks.

Beyond other measures, the internal governance measures are key in controlling the opportunistic behavior of directors put in charge of governing a firm. Accordingly, Khanchel (2007) argues that board decisions are often influenced by a number of internal institutional management practices that consequently have a bearing on the firm's financial performance. Jermias (2014), further asserts that the board's performance ability varied with the internal institutional management practices employed (Jermias & Gani, 2014). The size of boards, the independence of board members, and the separation of ownership and control are the primary objectives of this study.

Financial performance is generally a measure of the management's effectiveness in governing a firm (Core et al., 1999) that is to say, the efficiency with which management generates income on total assets, sales and most importantly the stockholder's equity which is imperative for the long-term viability of a firm (Marquardt et al., 2005). Since investors often look at the long-term success of a firm, the profitability ratios are more relevant in selecting firms to invest in (Abdullah & Valentine, 2009; Koji et al., 2020). As a result, the primary focus of this investigation was placed on three key financial ratios: return on capital, returns on assets, and sales returns.

Generally, owners often assign managers the role of governing the firm who are instead taken up by their own interests and differ from the shareholders' interests leading to the principle-agent conflicts. Institutional management helps to check the decisions of the agents to ensure that they follow their mandate.

1.1.4 Contextual background

In Uganda, corporate governance is emerging, with the enactment of regulations and acts that increasingly require that institutional management becomes the center of how firms are managed in order to ensure a certain standard of financial performance for instance the formulation of the Companies Act, 2012 that made provision for aspects of institutional management for boards and directors contained in Table F under section 14 which posits that the board composition should be balanced with majorly non-executive or independent directors (Coates, 2014; Mwijuka, 2016).

In Uganda, corporate governance practices and interpretations vary from firm to firm, providing us with an opportunity to understand how certain practices influence firm performance, particularly in Uganda where the regulatory environment is weak. This makes the study interesting because firms continue to experiment with different ways of implementing certain acts or provisions in order to achieve firm performance in the context of Uganda.

1.2 Statement of the problem

Introducing institutional management has generally been argued to be beneficial in enhancing the effectiveness of the organization (Bhagat et al., 2015). A study by Raithar and Haldar (2021), utilizing information for 500 Indian listed companies from 2008 to 2011, found that policies like ownership concentration in corporate governance enhanced financial performance (Raithar & Haldar, 2021). However, despite this interesting assertion, publicly traded companies in Uganda have persisted in showing a down trend despite adopting different corporate governance guidelines. For instance, the annual reports by the Uganda securities exchange indicated that the 17 listed corporations on the Uganda securities exchange market had registered a decline in equity turnover represented by about 75% over the last five years before pandemic period (Report & Statements, 2017).

Similarly, findings from the 2019 Annual report by Capital markets Authority indicated that the equity turnover had declined from 310Bn to 46.9Bn between 2015 and 2019, representing a decline of 75% (Brown, 2019; World Bank, 2016). This decline in performance is rather surprising considering that listed firms in Uganda have to adhere to stricter corporate governance practices. Accordingly, begging a question of how does corporate governance affects the financial performance of listed companies.

1.3 Purpose of the study

The purpose of the study is to examine the relationship between corporate governance and the financial performance of corporations listed on the Uganda Securities Exchange.

1.4 Specific objectives

- a) To examine the effect of board size on financial performance of listed firms on the Uganda securities exchange.

- b) To investigate the effect of board independence on financial performance of listed firms on the Uganda securities exchange.
- c) To establish the effect of separation of ownership and control on financial performance of listed firms on the Uganda securities exchange.

1.5 Research Hypotheses

The following null hypotheses were used to test the relationship between corporate governance practices and financial performance of listed firms on the Uganda securities exchange.

1.5.1 Null Hypotheses

H₀₁: There is no significant effect of board size on financial performance of listed firms on the Uganda securities exchange.

H₀₂: There is no significant effect of board independence on financial performance of listed firms on the Uganda Securities exchange.

H₀₃: There is no significant effect of separation of ownership and control on financial performance of listed firms on the Uganda Securities exchange

1.6 Conceptual framework

The study will focus on corporate governance practices to explain the performance of listed firms on the Uganda securities exchange. Building on earlier studies, corporate governance as the independent variable was conceptualized as board size, board independence and separation of ownership and control while financial performance as the dependent variable was conceptualized as return on sales, return on assets and return on equity. The extraneous variable was government ownership, though has potential to influence the outcome has been controlled. The figure 1 below illustrates the anticipated influence of corporate governance practices on financial performance.

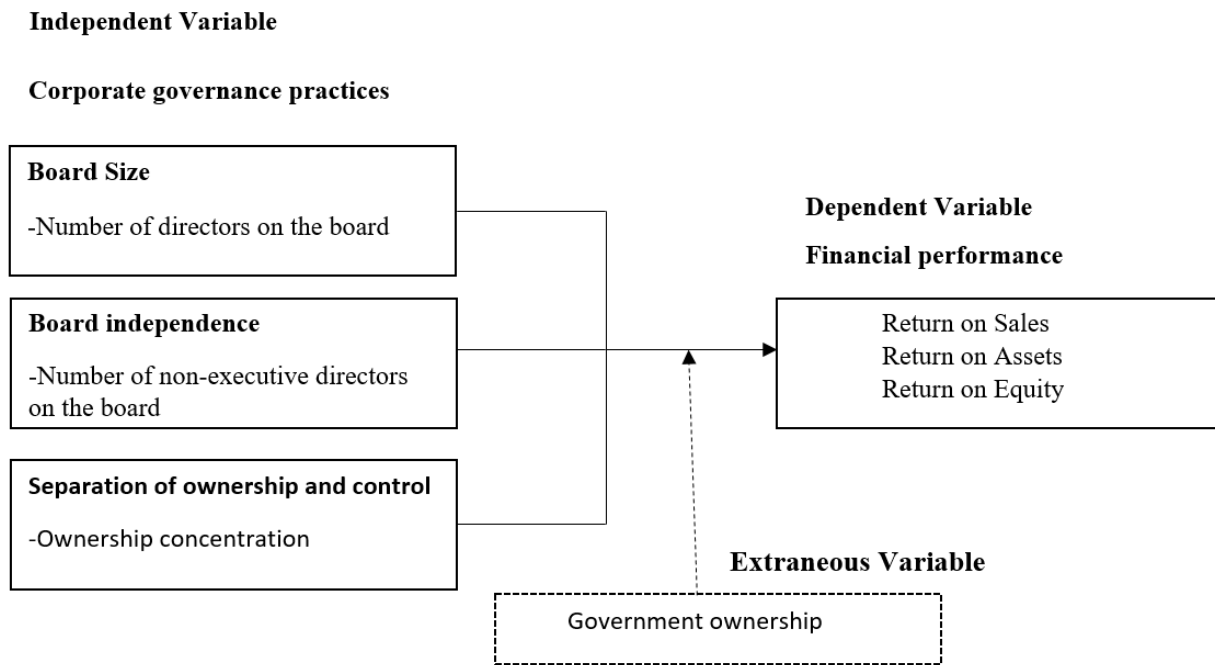


Figure 1. 1: Conceptual framework

Based on Abdullah & Valentine (2009); Kovermann & Velte, (2019); Turnbull (1997).

1.7 Scope of the study

The scope of the study detailed the coverage of the study in terms of the content scope, geographical and time scope which have been further detailed below.

1.7.1 Content scope

The financial performance of companies listed on the Uganda Securities Exchange was studied in terms of return on sales (ROS), return on assets (ROA), and return on equity (ROE) in order to determine the impact of corporate governance practices such as board size, board independence, and separation of ownership and control.

1.7.2 Geographical scope

Companies listed on the Uganda Securities Exchange between 2010 and 2018 were subject to an investigation to be conducted in Uganda.

1.7.3 Time scope

The research period covers thirteen years (2007-2019) of data collection from publicly traded companies.

1.8 Significance of the study

This study is relevant to highlight the contribution of institutional management to the performance of publicly listed firms. The research findings will be important in providing a further theoretical and empirical support for the idea that good institutional management practices are linked to financial performance. Following established theories and the scanty research that has been done demonstrating the relationship between study variables such as board size, board independence, and separation of ownership and control on the financial performance of firms in Uganda. By giving details on corporate governance in publicly traded companies, this will also provide as a platform for future studies.

The outcome of this investigation is expected to highlight certain facets of institutional management practices that will serve as a model for future revisions to the code of corporate governance that would be advantageous for businesses in Uganda to follow.

1.9 Operational definitions of terms and concepts

This section presents operational definition of key terms as were defined in the study.

Corporate Governance

This is generally a system where businesses are managed and controlled by agents. It focuses on what a board of directors must do in order to properly operate a firm and how they should deal with shareholders (Pass, 2004).

Firm Performance

This is the effectiveness with which a business uses its resources to create income (Samma & Ayub, 2013).

Board Size

This is the total number of individuals who serve as directors on a board.

Board Independence

This is the total number of directors who do not hold executive positions on the board. Non-executive directors make up the board.

Separation of ownership and control

This is described as the number of board members who also own shares in the firm.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section presents a review of the literature related to the study concepts. The theoretical literature reviews highlighted theories in relation to the study and the empirical literature explored related literature as advanced by various researchers and authors that are relevant to the study.

2.1 Theoretical review

Several theories have been advanced to explain the link between financial and financial performance. This research was guided by both the principle-Agent and stakeholder theory as the two theories better suited to explain the relationship institutional management has with financial performance of firms.

2.1.1 Agency theory

The Principle-Agent (Jensen & Meckling, 1976) theory is concerned with the opportunistic conduct where people want to maximize their own predicted interests and fall short of the alignment between the owner's and agent's objectives (Turnbull, 1997).

In the principal-agent relationships, it is expected that the agents work in the interests of the principals who have entrusted them with the resources. However, in most cases the agents subscribe to their self-serving interests. As such, implementing corporate governance principles supports the alignment of interests and incentives of the owners and management thereby reducing the agency problem that could potentially arise between them (European Bank for Reconstruction and Development, 2019).

Considering that the interests of agents and owners are divergent, and even sometimes contradictory, firms need to put in place certain practices to mitigate this reality. Accordingly, I

argue that corporate governance practices of board size, board independence and separation of ownership and control may not only address the divergent interests between the agents and owners but also positively influence a firm's economic performance. My conjecture is consistent with a study by Raithar and Haldar(2021) who found out that institutional management practices are positively related to economic performance(Raithatha & Haldar, 2021).

2.1.2 Stakeholder theory

In the stakeholder theory, Donaldson & Preston (1995) argued that no single group of interests should be assumed to be more important than any other when making managerial decisions (Turnbull, 1997). There are various stakeholders concerned with the performance of publicly listed companies. For example, owners, suppliers, community, government and agencies, among others. Therefore, the board and management are mandated to manage the entities on behalf of the stakeholders who are affected by its performance in different ways. To do so, entities such as publicly listed companies should be managed based on the institutional management principles including board independence, board size and separation of ownership and control.

The relevance of the stakeholder theory is that it advocates for inclusion of all parties when making managerial decisions which takes a win-win situation, this is likely to reduce the agency conflicts that may arise between the company's owners and managers. The stakeholder theory has also been widely adopted as a corrective measure in the governance of corporations where the principle-agent problem is likely to occur.

2.3 Conceptual review

Using the agency theory and stakeholder theory, it was conceptualized that good corporate governance practices would forecast the firm's financial performance. From the previous sections,

the key aspects that were considered for investigation were corporate governance and financial performance.

2.3.1 Financial performance

The rate of return an investor can anticipate earning from their investments is one way to evaluate a company's financial performance (Core et al., 1999). Investors rely on annual financial reports to interpret economic performance indicators required to make informed decisions before investing (Marquardt et al., 2005).

Beyond other accounting metrics, the company's absolute profitability is a good indicator of its operations however, it does not provide information on management's efficiency in producing profits from sales, assets and most importantly stockholder's equity. Accordingly, investors often look at the long run survival of a firm by using the profitability ratios which are more relevant in selecting firms to invest in (Abdullah & Valentine, 2009; Koji et al., 2020). Therefore, this study utilized ROE, ROA and ROS as the dependent variables.

The profitability of a company after subtracting all expenses like taxes, interest, and so on is measured by the ROS, which is used to evaluate the efficiency of management. It also gives an indication of how effectively a firm turns its sales into profits which helps investors compare companies of similar sizes (Batchimeg, 2017).

Return on assets checks management effectiveness by revealing how much profit a company earns for every unit sales of its assets. As an added bonus, it shows how efficiently a company generates profit from its operations. These assets may include inventory, property, accounts receivables, cash at bank and many more (Bennouri et al., 2018).

Return on equity checks management effectiveness on utilization of the investor's money by revealing an acceptable growth rate of the company value through measuring the earnings on stockholder's equity. ROE also helps inform an investor on how efficiently a firm utilizes the capital invested to generate profit and it is also the most critical parameter for an investor(Herciu et al., 2011).

2.3.2 Corporate governance

Generally, corporate governance is understood as a system for managing and directing a firm. Although the theories adopted focus more emphasis on internal governance procedures, institutional management is broad area that entails both internal and external governance practices aimed at ensuring mutual goals between the owners and the managers charged with governing the firm activities. The internal governance practices of board size, board independence and separation of ownership and control were therefore be the main emphasis in this study.

According to Wen (2005), board size represents the total number of directors it is further claimed that larger board sizes are less likely to be subject to thinking in a particular way which lessened the principal-agent dilemma and as a result improve economic performance.

Boards with a higher percentage of independent non-executive directors are less likely to nurture the principal-agent problem, which leads to better economic performance (Black et al., 2006; Lu et al., 2021a; Wintoki et al., 2012).

According to Bessy and Chauvin (2013), a situation where the board of directors owns a portion of the firm's shares is known as separation of ownership and control (Bessy & Chauvin, 2013), boards with members owning firm shares were less likely to have the principal-agent problem and this may consequently lead to better economic performance.

Since governance practices are frequently selected based on regulations implemented in a particular market, making them subjective in nature, little research has been done in Uganda to determine the best internal institutional management practices. The studies currently available, however, indicate that there is no single best institutional management practice. This notwithstanding, the evidence from different markets posits a relationship between corporate governance practices and firm performance (Khanchel, 2007).

2.4 Empirical Literature

2.4.1 Board size and financial performance

Research investigating the connection between board size and company financial success a bound. For instance, Koji (2020) analyzed 1412 family-owned and non-family-owned manufacturing enterprises in Japan from 2014 to 2018. Koji (2020) found that while board size doesn't affect family firms' profitability, it does for non-family enterprises. The Tobin's q and ROA were used to analyze the company's performance (Koji et al., 2020).

When John and Kajola (2008) examined 20 Nigerian listed companies from 2000 to 2006, they found that ROE and board size were positively related (John & Kajola, 2008). However, using data from 452 large American industrial businesses between 1984 and 1991, Yermack (1996) discovered that board size and financial success were negatively related. The firm's performance was evaluated using Tobin's q. (Yermack, 1996).

According to the theory that owners delegate duty to agents and also institute the board of directors, a bigger board size is likely to have an impact on the company's financial success. Accordingly, i hypothesized that board size affects financial performance.

2.4.2 Board independence and financial performance

Many studies have been put forth to understand how board independence is related to financial performance. Using data from Pakistan, Lu (2021) evaluated the influence of non-executive director presence on firm performance and found a favorable relationship (Bhagat et al., 2015). However, Pooja and Sharma (2014) reported a limited effect of board independence on firm economic performance using data from five multinationals in India and South Korea from 2005 to 2013. (Pooja & Sharma, 2014)

From 2005 to 2006, researchers Mashanyekhi and Bazaz (2008) examined the relationship between companies listed on the Tehran Stock Exchange and the performance of their businesses from the perspective of external board directors. They discovered that outside directors had a beneficial impact on the functioning of the company. They conducted an analysis in which they included EPS, ROE, and ROA (Mashayekhi & Bazaz, 2008).

Furthermore, previous research indicates that a board with a large number of independent directors is less likely to foster principle-agent conflicts, resulting in improved economic performance. As a result, I have come to the conclusion that there is a significant effect of the number of independent directors on financial performance.

2.4.3 Separation of ownership and control and financial performance

Several studies have been conducted in an effort to gain a better understanding of the connection between the ownership and control structures of a company and the performance of that company. Raithar and Haldar (2021) investigated the relationship of ownership concentration with firm performance using data for 500 Indian publicly traded firms in the years of 2008 to 2011, they concluded that a higher ownership concentration improves economic performance (Raithatha & Haldar, 2021).

Isolation of control and ownership was found to be positively associated with the firm's financial success by Lu (2021), who used data from 475 Pakistani companies listed on the Pakistan Stock Exchange from 2010 to 2019. (Lu et al., 2021b). Wen (2005) discovered no correlation between ownership concentration and financial success as determined by return on ROA and ROE using data from 30 Malaysian companies for the 2007 fiscal year (Wen, 2005).

Further to the insights from the theory, a board that constitutes a large percentage of ownership concentration is more likely to have decision making well aligned with the owner's interests consequently improving financial performance. Accordingly, I hypothesize that ownership concentration has a positive link with financial performance.

2.4.4 Empirical gaps

Although the available literature posits that the success of a company is strongly associated with its corporate governance policies, including board size, independence, and ownership concentration. The studies conducted thus far have primarily been in the western world, and Uganda's institutional management research is limited. Therefore, the significance of context cannot be underestimated because institutional management practices differ from one market to another.

Drawing on the insights from the idea that the owners create the board and assign duty to the agents. The board structure is crucial in preventing agents in charge of running the company from acting opportunistically. For instance, a larger board would guarantee that a company's operations are effectively manned. Therefore, a board with a high number of independent directors may be less likely to encourage principle-agent conflicts, while a board with a high proportion of ownership concentration may be likely to have decision-making that is closely aligned with the interests of the owner.

Therefore, in this study, the researcher investigated the relationship between institutional management and economic performance.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the scientific and logical steps that were taken in the design, execution and analysis of the study. It also addresses the ethical issues and limitations underlying the study. The specific issues entailed in this chapter include a discussion of the research design, population and sampling, data collection procedures and methods, measurement of the study variables, issues of reliability and validity, analysis, ethical considerations and limitations of the study.

3.1 Research Approach

This research espoused a quantitative research approach. There are several ways through which research can be conducted which include the quantitative, qualitative and mixed methods approach. For this study, the quantitative research was relevant to help investigate the effect of corporate governance practices on performance of listed firms(Hallock, 1997).

3.2 Research design

This study used a longitudinal research design since the data for listed firms was observed over a time period (2010 to 2018).

3.3 Study population

This study focused on all listed firms on the Uganda securities exchange. The Uganda security exchange has population of eighteen listed firms between the years of 2010 and 2018. However, in this study only fifteen firms were considered. The target population was fifteen (15) firms since some firms had missing data for more than four years such as New vision printing and publishing company limited while MTN and CIPLA had joined the securities exchange after the time period under consideration.

3.4 Sample size

Fifteen listed companies were chosen as the sample for this study out of the target population of 18 listed companies on the Uganda stock exchange. The 15 companies that are listed on the Uganda Securities Exchange serve as the unit of study.

3.5 Sampling technique and procedures

The researcher applied purposive sampling of the listed firms on the Uganda securities exchange to obtain information from key firms that had been in existence for the time period under consideration.

3.6 Data collection method and source of data

The panel data for listed firms on the Uganda securities exchange obtained from annual financial reports from the capital markets authority to gather information that will offer insights and solutions in the investigation (Baride, 2003). The data collected was gathered using the document review method.

3.6.1 Document review method

In this study, the document review method was relevant to necessitate gathering of quantitative data from a large population over several years. The data collected was secondary data that was quantitative in nature consisting of panel data (years 2010 to 2018) and was collected from financial statements and annual market reports that are available publicly, mandatory and regulated to ensure accuracy by the Uganda Securities exchange

3.7 Data collection instruments

The document review checklist was used to gather information from the secondary data.

3.7.1 Document review checklist

In this study, the panel data was obtained using a document review checklist that ensured that all data regarding the variables under investigation was correctly captured.

3.8 Reliability and Validity

In this study, to ensure reliability, issues of conformability, transferability and dependability were dealt with in the following manner. For conformability, all the annual reports were reviewed as per the document review checklist to address any kind of omissions and bias. Transferability was addressed by producing descriptions of the setting, and study findings. Dependability was addressed through proper and thorough examination of all documents to be used in the study. This helped to ensure a certain degree of quality of results(Fischer et al., 2014).

In this study validity of data was ensured in the following ways. For content validity, data was sourced from Financial statements and annual market reports that have been reviewed by capital market authority who are mandated to ensure consistency of financial results and their accuracy across the board(Boru, 2018).

3.9 Panel data analysis

The data was analysed using quantitative techniques. The data was first collected using the document review checklist. The data from the document review checklist was then imported into stata14 software. Descriptive statistics were conducted to describe the nature of variables utilized in the study and to highlight any potential relationships between variables in the study. The descriptive statistics was presented with the help of Stata version 14 software.

Diagnostic testing of normalcy was then used to decide if a Fixed Effects or Random Effects model is best. This was established using a Hausman specification test and Breusch-Pagan Lagrange

multiplier which is significant when the p value is less than the 5% level of confidence. The data was then examined first with a simple regression analysis to test the study's proposed hypotheses followed by a multiple regression analysis on panel data to identify the association between variables.

3.10 Measurement of study variables

The constructs used to measure the variables in this study were adapted to the Ugandan context by taking constructs from other studies that used analogous constructs. The number of board members, the percentage of non-executive directors on the board, and board ownership concentration, respectively, were the independent variables measured by the size, independence, and separation of ownership and control of the board. Return on sales, return on assets, and return on equity were used to measure firm performance, which was assessed using a document review checklist to collect panel data over a nine-year period.

Dependent variable

Variable	Description of variable	formula
RO.	Return on Equity	$ROE = \text{Net income} / \text{shareholder's equity}$
ROA	Return on Assets	$ROA = \text{Net income} / \text{total assets}$
ROS	Return on Sales	$ROS = \text{Operating profit} / \text{net sales}$

Independent variables

Variable	Description of variable	formula
B_size	Board size	Number of board members
B_independence	Board Independence	Number of non-executive directors
Own_concentration	Ownership concentration	Percentage of shares held by board members

3.11 Ethical Considerations

The ethical issues in this research were addressed through ensuring the right access to the data used in this study, the data obtained for listed firms in the Uganda securities exchange is publicly available, audited and validated data by the capital markets authority(Baride, 2003). In light of the ethical considerations such as plagiarism, the researcher acknowledged all sources of information utilized during this research.

3.12 Limitations of the study

During this study, there was limited access to information for some firms during their years of operation which was corrected by eliminating the firm from the discussion.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

The study's findings on how corporate governance affects listed companies' financial performance on the Uganda Securities Exchange are described in this chapter. The results are divided into two sections: section one gives an overview of the variables' descriptive statistics, and the second section provides further information on the regression analysis, which forms the basis for the empirical analysis.

4.1 Sample characteristics of listed firms on Uganda securities exchange

This study covered fifteen listed firms on the Uganda Securities Exchange over a nine-year period from 2010 to 2018. The results in table 4.1 below present the characteristics of listed firms in line with the institutional management practices and economic performance metrics over a nine-year period, resulting in a panel data set with 135 observations. The statistics below indicate that the average size of board members ranges between 7.7 and 10.1 for the time period of 2010 to 2018. The average number of independent directors' ranges between 5.7 to 6.9 which implies that on average for any board of directors of a listed firm, two thirds of it constitute independent directors. On average, the ownership concentration ranges between 56.1% and 68.1%. The results further show that generally the return on sales averagely ranges from 23% to 32% while the average return on equity ranges from 19% to 33% and the return on assets ranges from 20% to 30% over the time period.

Table 4.1: Sample characteristics of listed firms on the Uganda Securities Exchange

Description	Years								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Board Characteristics	Average								
Board size (number of Board members)	7.7	8.1	9.3	8.8	9.6	9.7	10.1	9.5	9.8
Board independence (No. of independent directors)	5.7	5.8	6.1	6.3	6.2	6.5	6.6	6.9	6.6
ownership concentration (%)	56.1	56.8	68.1	61.0	64.3	65.0	66.2	65.7	64.1
Financial performance									
ROS(%)	27%	32%	29%	28%	23%	24%	24%	26%	23%
ROE (%)	24%	28%	33%	24%	23%	24%	21%	19%	19%
ROA (%)	25%	30%	25%	24%	27%	21%	20%	21%	20%

4.1.1 Average financial performance of selected firms on the Uganda Securities Exchange from year 2010 to 2018

The figure 4.1 below presents the average financial performance of listed companies for the period of 2010 to 2018. From the results in the figure 4.1 below, it indicates that the average financial performance of the selected firms from the time period 2010 to 2018 confirm that only bank of Baroda, Centum investments and Stanbic bank registered a return on sales above 0.5 between 2010 and 2018 while majority fall below the 0.2 mark. From figure 2 below, British American tobacco Uganda and East African breweries limited registered an average return on equity of over 0.5 with Uganda clays limited(UCL) registering a negative average return on equity over the time period. Similarly, no selected listed company registered a return on equity above 0.2 over 2010 to 2018.

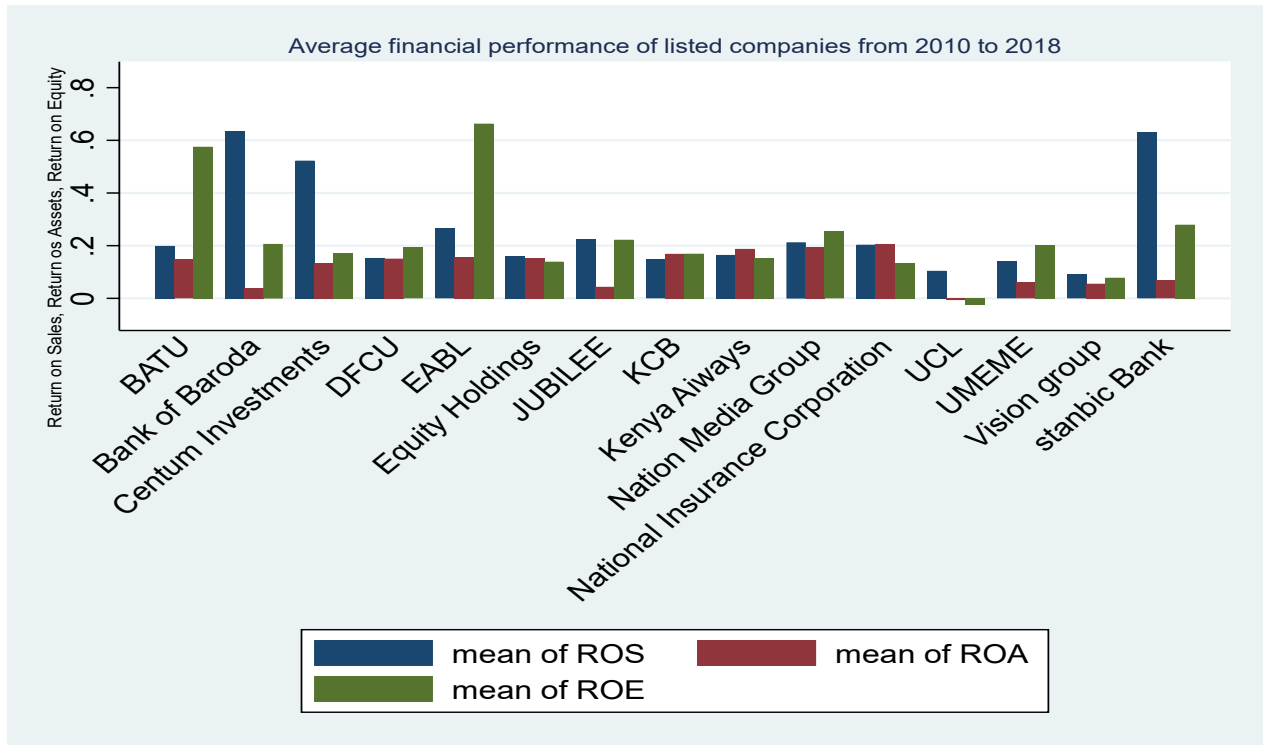


Figure 4.1: Graph showing average performance of listed firms from 2010 to 2018.

4.1.2 Descriptive statistics of selected variables

The descriptive statistics summary for the variables in the study are presented in table 4.2 below. From the results in the table 4.2 below, the average return on sales (ROS) of the selected listed companies ranges from -0.078 to 0.99 with a negative minimum of -0.078 implying that there is a listed company that did not earn any profits relative to the resources invested in it. However, on average the return on sales of listed companies within the time period is 0.26 and a standard deviation of 0.22 which suggests that the mean is close to the true value with minimal deviation from the actual.

Notably, the average return on assets (ROA) of the selected listed companies ranges from -0.079 to 0.563 with a negative minimum of -0.079 implying that there is a listed company that did not earn any profits relative to the assets invested in it. However, on average the return on assets of

listed companies within the time period is 0.11 and a standard deviation of 0.089 that suggests that the mean is close to the true value with minimal deviation from the actual.

Furthermore, the average return on equity (ROE) of the selected listed companies ranges from -0.195 to 1.28 with a negative minimum of -0.195 implying that there is a listed company that did not earn any profits relative to the revenues invested in it. On average the management's efficiency to generate profits from the revenue is at 0.228 and the standard deviation is 0.208 which implies that the mean is close to the true value with minimal deviation from the actual.

On average the board size for the selected listed companies is 9 members, with the least number of board members being 1 and the biggest board size being 18 with a standard deviation from the mean of 2.5. The average number of non-executive directors on the board for the listed companies is 6 members, with the least number of board members being 3 and the biggest board size being 15 with a standard deviation from the mean of 2.9. On average, the ownership concentration for the listed companies is 65.7%, with the least ownership concentration being 7% and the largest ownership concentration being 98.8% with a standard deviation from the mean of 0.15.

Table 4. 2: The summary of descriptive statistics for selected variables used in the study

Variable	Obs	Mean	Std. Dev.	Min	Max
ROS	132	.2557316	.2249882	-.0788244	.9856182
ROA	132	.1185609	.0899826	-.0799418	.563
ROE	132	.2284331	.2087141	-.1947132	1.283418
No_Board_M~s	132	9.507576	2.554733	1	18
NoBoard_NEDs	132	6.439394	2.937667	3	15
Own_Conc_L~c	132	.6578162	.1594352	.076551	.9885

4.2 Regression analysis

This section presents the analysis of data to address the three specific objectives whose null hypothesis stated below was tested:

H₀₁: There is no significant effect of the board size on financial performance of listed firms on the Uganda securities exchange.

H₀₂: There is no significant effect of board independence on the financial performance of listed firms on the Uganda Securities exchange.

H₀₃: There is no significant effect of separation of ownership and control on financial performance of listed firms on the Uganda Securities exchange

4.2.1 Model estimation

For panel data, generally regression is an effective approach for determining the link between independent and dependent variables. Many studies have employed a fixed-effects model that controls unobservable time-invariant variables and the reverse is true for the random effects model. However, in some cases the fixed effects model may not always be appropriate because some firm characteristics may vary over time thereby decreasing the appropriateness of a fixed-effects model thus making the random effects model more appropriate. Therefore, determining which model estimation approach to employ is critical. The Hausman specification test was adopted to make a choice between a fixed effects model and random effects model, For the Hausman test, the null hypothesis is that the preferred model is random effects model while the alternative hypothesis is the fixed effects model, therefore if the probability value of chi² is greater than 0.05 at 95% level of significance, a random effects model is preferred otherwise the fixed effects model is adopted(Hahn & Hausman, 2002). The results from the Hausman test permitted the researcher to run a Random effects model instead of a fixed effects model.

To test for heteroskedasticity, which occurs when standard errors of variables observed over time are not constant, the Breusch-Pagan Lagrange multiplier was also estimated since we were using the random effects model and was corrected by running robust standard errors that are free from heteroskedasticity and thus concluded that random effects is the appropriate model estimation approach. A simple linear regression of each independent variable in relation to financial performance was run followed by multi-linear regression of all the independent variables combined in relation to economic performance.

4.2.2 Board characteristics and financial performance of listed companies on the Uganda securities exchange

Board size and financial performance

Table 4.3 below presents regression results for the effect of board size on financial performance. The table 4.3 also presents the validity and reliability test R² and P value for the models as well as the economic performance (ROS, ROA and ROE) under the Random Effects panel regression model at 95% confidence level.

From the results in the table 4.6 below, the coefficient of the number of board members is negative and statistically significant indicating that for every increase in one board member, there is a decrease of 0.0157 in return on sales (ROS). The coefficient of the number of board members is positive and statistically significant indicating that for every increase in one board member, there is an increase of 0.005 in return on assets (ROA). The coefficient of the number of board members is positive and insignificant indicating that for every one unit increase in number of board members there is an increase of 0.007 in return on equity (ROE).

The R-square value indicates that the number of board members accounts for 3% of the total variations in the return on sales (ROS), then 2% of the total variations in the return on assets (ROA) and 1% of the total variations in the return on equity (ROE).

Table 4. 3 : Regression results for the effect of board size on financial performance

	(1) ROS		(2) ROA		(3) ROE	
No_Board_M~s	-0.0157433	(0.0139)	0.00503178	(0.0370)	0.00788889	(0.2181)
_cons	0.406303	(0.0000)	0.0712101	(0.0070)	0.147989	(0.0148)
N	131		131		131	
R-sq	0.032		0.020		0.010	
adj. R-sq	0.024		0.013		0.003	
rmse	0.222932		0.0895261		0.199974	

4.2.3 Number of non-executive directors and financial performance

The table 4.4 below presents the coefficient of the number of non-executive directors is positive and statistically insignificant indicating that for every increase in one board member, there is an increase of 0.002 in return on sales (ROS). The coefficient of the number of non-executive directors is negative and statistically insignificant indicating that for every increase in one board member, there is an increase of 0.002 in return on assets (ROA). The coefficient of the number of non-executive directors is positive and insignificant indicating that for every one unit increase in number of board members there is an increase of 0.004 in return on equity (ROE).

The R-square value indicates that the number of non-executive directors' accounts for 0.1% of the total variations in the return on sales (ROS), then 0.4% of the total variations in the return on assets (ROA) and 0.04% of the total variations in the return on equity (ROE).

Table 4.4: Regression results for the effect of board independence on financial performance

	(1) ROS		(2) ROA		(3) ROE	
NoBoard_NEDs	0.00207779	(0.6621)	-0.00202706	(0.4521)	0.00437159	(0.3839)
_cons	0.243039	(0.0000)	0.132183	(0.0000)	0.194885	(0.0000)
N	131		131		131	
R-sq	0.001		0.004		0.004	
adj. R-sq	-0.007		-0.003		-0.004	
rmse	0.226493		0.0902571		0.200583	

4.2.4 Ownership concentration and financial performance

The table 4.5 below presents the coefficient of the ownership concentration is positive and statistically significant indicating that for every increase in one unit of ownership concentration, there is an increase of 0.38 in return on sales (ROS). The coefficient of the ownership concentration is negative and statistically insignificant indicating that for every unit increase in ownership concentration, there is an increase of 0.05 in return on assets (ROA). The coefficient of the ownership concentration is positive and insignificant indicating that for every one unit increase in ownership concentration there is an increase of 0.19 in return on equity (ROE).

The R-square value indicates that the ownership concentration accounts for 7% of the total variations in the return on sales (ROS), then 0.9% of the total variations in the return on assets (ROA) and 2% of the total variations in the return on equity (ROE).

Table 4.5: Regression results for the effect of ownership concentration on financial performance

	(1) ROS		(2) ROA		(3) ROE	
Own_Conc_L~c	0.384063	(0.0049)	-0.0547787	(0.2528)	0.194697	(0.0985)
_cons	0.00466725	(0.9549)	0.155018	(0.0000)	0.0954490	(0.2223)
N	131		131		131	
R-sq	0.072		0.009		0.024	
adj. R-sq	0.065		0.002		0.016	
rmse	0.218244		0.0900382		0.198616	

4.2.5 Multiple linear regression

Regression results for the effect of board size, number of non-executive directors and ownership concentration on return on sales

The table 4.6 below presents the coefficient of the number of board members is negative and statistically significant indicating that for every increase in one board member, there is a decline of 0.029 in return on sales (ROS). The coefficient of the number of non-executive board members is positive and statistically significant indicating that for every increase in one board member, there is an increase of 0.025 in return on sales (ROS). The coefficient of the ownership concentration is positive and statistically significant indicating that for every one unit increase in ownership concentration, there is an increase of 0.332 in return on sales (ROS).

The R-square value of 0.1310 indicates that the model accounts for 13.1% of the total variations in the return on sales (ROS). The probability (Prob >F-statistic) is 0.0001 which is less than 5% and this indicates that the dependent variable can significantly predict the dependent variable which means the model has high goodness of fit.

Table 4. 6: Regression results for the effect of board size, number of non-executive directors and ownership concentration on Return on sales

Linear regression			Number of obs	=	131		
			F(3, 127)	=	8.03		
			Prob > F	=	0.0001		
			R-squared	=	0.1310		
			Root MSE	=	.21288		
ROS	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]		
No_Board_Members	-.0293846	.010232	-2.87	0.005	-.0496319	-.0091373	
NoBoard_NEDs	.0252013	.0072427	3.48	0.001	.0108692	.0395333	
Own_Conc_Large_Perc	.332379	.1295944	2.56	0.011	.0759351	.5888228	
_cons	.1557055	.1143083	1.36	0.176	-.07049	.381901	

Regression results for the effect of board size, number of non-executive directors and ownership concentration on return on assets

The table 4.7 below presents the coefficient of the number of board members is positive and statistically significant indicating that for every increase in one board member, there is an increase of 0.013 in return on assets (ROA). The coefficient of the number of non-executive board members is negative and statistically significant indicating that for every increase in one board member, there is a decrease of 0.01 in return on assets (ROA). The coefficient of the ownership concentration is negative and statistically insignificant indicating that for every one unit increase in ownership concentration, there is a decrease of 0.027 in return on assets (ROA).

The R-square value of 0.08 indicates that the model accounts for 8% of the total variations in the return on assets (ROA). The probability (Prob >F-statistic) is 0.017 which is less than 5% and this indicates that the dependent variable can significantly predict the dependent variable which means the model has high goodness of fit.

Table 4.7: Regression results for the effect of board size, number of non-executive directors and ownership concentration on return on assets

Linear regression			Number of obs	=	131		
			F(3, 127)	=	3.52		
			Prob > F	=	0.0170		
			R-squared	=	0.0837		
			Root MSE	=	.08726		

ROA	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
No_Board_Members	.0135982	.0047714	2.85	0.005	.0041565	.0230399
NoBoard_NEDs	-.010992	.0039709	-2.77	0.006	-.0188497	-.0031343
Own_Conc_Large_Perc	-.0276508	.0534981	-0.52	0.606	-.1335138	.0782122
_cons	.078695	.0549476	1.43	0.155	-.0300364	.1874263

Regression results for the effect of board size, number of non-executive directors and ownership concentration on return on assets

The table 4.8 below presents the coefficient of the number of board members is positive and statistically significant indicating that for every increase in one board member, there is an increase of 0.015 in return on equity (ROE). The coefficient of the number of non-executive board members is negative and statistically insignificant indicating that for every increase in one board member, there is a decrease of 0.0014 in return on equity (ROE). The coefficient of the ownership concentration is positive and statistically significant indicating that for every one unit increase in ownership concentration, there is an increase of 0.277 in return on equity (ROE).

The R-square value of 0.05 indicates that the model accounts for 5% of the total variations in the return on equity (ROE). The probability (Prob >F-statistic) is 0.0068 which is less than 5% and this indicates that the dependent variable can significantly predict the dependent variable which means the model has high goodness of fit.

Table 4.8: Regression results for the relationship between board size, number of non-executive directors and ownership concentration with Return on equity

Linear regression	Number of obs	=	131
	F(3, 127)	=	4.24
	Prob > F	=	0.0068
	R-squared	=	0.0520
	Root MSE	=	.19724

ROE	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
No_Board_Members	.0153094	.0072412	2.11	0.036	.0009804	.0296384
NoBoard_NEDs	-.001476	.0056087	-0.26	0.793	-.0125746	.0096226
Own_Conc_Large_Perc	.2774416	.111859	2.48	0.014	.0560929	.4987903
_cons	-.0950051	.0864053	-1.10	0.274	-.2659857	.0759755

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes the findings, then discusses the study in relation to the objectives, then gives a conclusion, and recommendations based on the study's findings.

5.1 Summary of Key findings

The study sought to investigate the effect of corporate governance principles on corporate performance. Specifically, it examined the effect of board size, board independence and separation of ownership and control on return on sales, return on assets and return on equity. The study used a target population of fifteen firms on USE. Using regression analysis, the study established that there is a significant effect of board size and separation of ownership and control on financial performance. However, it revealed that the number of non-executive members had a statistically insignificant effect on firm financial performance.

5.2 Discussion of findings

In the preceding chapters, the corporate governance practices of board size, number of non-executive directors and ownership concentration together with the financial performance were studied. This chapter presents a detailed discussion of the findings in line with the specific objectives.

5.2.1 The effect of board size on financial performance

The first objective of the study was to examine the effect of board size on financial performance of publicly traded company on the Uganda securities exchange for selected companies for the period of 2010 to 2018. A regression analysis was done to determine how the number of board members relates with the company economic performance, the study revealed that board size has

a negative and statistically significant effect on return on sales (ROS). The study also revealed a positive and significant effect of board size with return on assets (ROA), however, it revealed a positive insignificant effect of board size with return on equity (ROE). This implies that as the number of board member's increases, the return on sales reduces while the return on assets increases. Therefore, this may imply that a larger board size necessitates better asset utilization since board members are less likely to subdue to their self-serving interests thereby reducing the principle-agent conflict as claimed by the agency theory. The larger board size would positively impact on the economic performance of the company.

These findings are consistent with the results from Koji (2020) on non-family owned enterprises from 2014 to 2018 that revealed a relationship between board size and the firms' profitability in terms of Tobin's q and ROA (Koji et al., 2020).

5.2.2 The effect of the number of non-executive directors on financial performance

The second objective was to examine the effect of the number of non-executive directors on the financial performance of listed companies on the Uganda securities exchange for period of 2010 to 2018. A regression analysis was done to determine how the number of non-executive directors relates with the economic performance, the study revealed that the number of non-executive members has a positive and statistically insignificant effect on firm financial performance. This may imply that a larger number of non-executive board members does not impact on performance. These findings concur with findings of Pooja and Sharma (2014) who reported a limited effect of board independence on firm financial performance using data from five multinationals in India and South Korea from 2005 to 2013. (Pooja & Sharma, 2014) but are contrary to the findings of Lu (2021) examined the influence of non-executive director presence on firm performance and found a favorable relationship.

5.2.3 The relationship between ownership concentration and financial performance

The third objective was to examine the effect of ownership concentration on financial performance of listed companies on the Uganda securities exchange for the period of 2010 to 2018. A regression analysis was done to determine how the ownership concentration relates with the economic performance, the study revealed that the ownership concentration has a statistically significant effect on the return on sales (ROS) but was insignificant on the return on assets (ROA) and return on equity (ROE). This may imply that companies with a high ownership concentration are less likely to foster the principal-agent conflicts and this would consequently allow for more inclusion of all stake holder interests. This therefore supports the stakeholder theory.

These findings are consistent with the findings of Raithar and Haldar(2021) who using data for 500 Indian publicly traded firms in the years of 2008 to 2011 concluded that a higher ownership concentration improved economic performance(Raithatha & Haldar, 2021). These findings also concur with Lu (2021), who utilised data from 475 Pakistani companies listed on the Pakistan Stock Exchange from 2010 to 2019, discovered that separation of ownership and control was positively associated to the firm's financial success (Lu et al., 2021b). However, the findings are contrary to findings of Wen (2005) who found no relationship between ownership concentration and financial success (Wen, 2005) using 30 Malaysian companies for the 2007 fiscal year.

5.3 Conclusion

The study sought to examine the relationship between corporate governance practices and financial performance of listed firms on the Uganda securities exchange. Generally, these findings revealed that indeed there is a link between corporate governance practices and financial performance of listed firms. The specific corporate governance practices utilised were board size, board independence and ownership concentration. The board size and ownership concentration were

found to have a significant effect on financial performance companies on the Uganda securities exchange whereas the board independence revealed an insignificant relationship with financial performance.

By and large the outcome shows that surely financial performance of a traded company has reasonable bearing on and is very much a function of good corporate governance practices. The board size and ownership concentration were found to command substantially on the financial performance of corporate listed on the USE unlike the board independence which proved low command on the financial results of the same corporates. The study therefore rounded up by throwing out the stated null hypothesis for board size and ownership concentration, of not having substantial effect on economic performance but recoiled when it came to the null hypothesis of board independence since this proved to have substantially no effect on economic performance.

The board size adversely contributed to economic performance as measured by return on sales. In a nutshell, a large board is more likely to result in low return on sales, culminating in compromised operational efficiency. Obviously, the larger the board size, the higher will be the cost of emoluments and besides there is also the shortcoming ensuing from delayed decision making. The study therefore observed that selecting a reasonable board size is key considering the negative effect it impacts on return on sales. On a different tone, it advocates for increase in ownership intensity as this would increase economic performance.

The study therefore concluded by rejecting the stated null hypotheses for board size and ownership concentration having no significant relationship with financial performance but failed to reject the null hypotheses of board independence having no significant relationship with financial performance. However, it is important to note that board size had a negative contribution to financial performance as measured by return on sales. This implies that increasing the number of

board members may instead negatively impact on return on sales consequently affecting operational efficiency, this is likely since larger board sizes may cause delays in decision making. The study therefore concludes that listed companies should pay ensure selection of the right board size and also advocate for increase in ownership concentration as this would increase financial performance.

5.4 Recommendations

From the outcome of the study, it is apparent wisdom for the existing listed companies of USE to downsize the board membership seeing that it has no ensuring benefits but rather increased costs resulting in poor or low returns, plus the fact that such large boards result in delayed decision making. The study recommends that ownership concentration is not to be ignored as the study has isolated it to be beneficial to the companies' economic performance since it works by bringing about inclusion of all stakeholders' interest not to mention its role in reducing the principal – agent conflict.

From the findings in the study, the study recommends that the existing listed companies on the Uganda securities exchange should minimize on the number of board members as it has been seen to negatively impact on performance. This is because of the remuneration and delays in decision making that come with such decisions.

The researcher also recommends that the existing listed companies on the Uganda securities exchange should advocate for increase in ownership concentration as it has been seen to positively contribute to financial performance. This is because it promotes inclusion of all stakeholder interests and is known to reduce the principle-agent conflicts.

5.5 Suggestions for further research

Basing on the investigations of the study, research in the following areas is proposed;

- a) Similar research can be done on the listed companies after 2019 during the pandemic period to assess the influence of institutional management practices on financial performance.

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APPENDICES

APPENDIX 1: DOCUMENT SURVEY SHEET FOR COLLECTION OF SECONDARY DATA

NAME OF FIRM.....

SECTOR.....

	Financial Performance												
Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Financial performance													
Net Sales													
Total Assets													
Equity													
Net income													
Operating profit													
ROA													
ROS													
ROE													
	Corporate governance												
Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of board members													
Number of independent directors													
Ownership concentration													