

**CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE IN  
THE BANKING SECTOR: A STUDY OF COMMERCIAL BANKS IN  
UGANDA**

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**A DISSERTATION SUBMITTED TO KYAMBOGO UNIVERSITY  
GRADUATE SCHOOL IN PARTIAL FULFILMENT OF THE  
REQUIRMENTS FOR THEAWARD OF MASTER'S  
DEGREE OF BUSINESS ADMINISTRATION  
OF KYAMBOGO UNIVERSITY**

**DECEMBER, 2018**

## DECLARATION

I declare that this research dissertation is my original work and has not been published or submitted to any university or institution of higher learning for any award.

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Sign.....

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## APPROVAL

This work has been done under our supervision and has met the research requirements of Kyambogo University and is now ready for submission.

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## **DEDICATION**

To my wife Ms. Ritah Nakyeyune and my son James Ssemugenyi

## **ACKNOWLEDGMENT**

The journey towards producing this research dissertation has received support from various persons that cannot go unappreciated. But before it all, I thank God for His mercies and favor upon my life throughout this academic process. Special thanks go to my supervisors, Dr. Maurice Mukokoma and Dr. Dan Ayebale, who have been very supportive right from the selection of the research topic to date. I am extremely grateful for the time, patience, constructive criticisms and useful suggestions they have provided.

Finally, exceptional thanks and utmost gratitude to the board members of some selected banks who honored the appointments to take part in interview sessions which yielded qualitative results for this study.

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## LIST OF ACRONYMS

BOU	Bank of Uganda
CEO	Chief Executive Officer
CG	Corporate Governance
ICGU	Institute of Corporate Governance of Uganda
OECD	Organization for Economic Co-operation and Development
US	United States
UK	United Kingdom
ROA	Return on Assets
ROE	Return on Equity
SMES	Small and Medium Enterprises
SACCOS	Savings and Credit Cooperatives
BOD	Board of Directors
AC	Audit Committees
BC	Board Composition
EACB	East African Currency Board
LM	Lagrange Multiplier
USE	Uganda Security Exchange
WB	World Bank
SEP	Separation of Ownership from Control
OW	Owner-Controlled Banks

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## ABSTRACT

This study was set to investigate the effect of corporate governance on financial performance of commercial banks in Uganda. Specifically, the study examined the effect of board composition on financial performance, assessed the effect of audit committees on financial performance, and analyzed the effect of separation of ownership from control on financial performance of commercial banks in Uganda. The study utilized panel data generated for 4 years (2014- 2017) among 23 commercial banks. The findings of the study unveiled the following key insights. First, financial performance was found to be dependent on size of the board, board independence, firm leverage and number of employees. Secondary, the data revealed that audit committee variables significantly explained the variations in ROA and ROE. A similar connection was established for the case of the effect of separation of ownership from control on financial performance of commercial banks. In terms of policy, this study; emphasizes the need to pay attention towards sensitizing all commercial banks to register their membership with Institute of Corporate Governance of Uganda, Board of Directors advising directors in banks which are listed on USE to buy more shares as this makes them work towards maximizing objectives of all stakeholders. Overall, the findings in this study will nurture commercial banks on how to foster their financial performance to remain competitive in the banking sector.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 :Introduction**

The study addressed the concern of how corporate governance affects financial performance in the banking sector. Corporate governance first came into vogue in the 1970s in the United States and within 25 years, it had become a subject of debate worldwide by academicians, regulators, executives and investors. Since then, various studies have written about corporate governance worldwide in a variety of contexts and on how it has been revolving over years but in Uganda it's still a concept which has not been fully studied most especially in the context of a banking sector.

Therefore, the study aimed at contributing to this area of concern by investigating the effect of corporate governance on financial performance of commercial banks in Uganda. The sections that followed thereto, presented, the background to the study, statement of the problem, purpose of the study, study objectives, research questions, and scope of the study, significance of the study, anticipated limitations of the study, conceptual framework and definition of variables.

### **1.2: Background to the Study**

#### **1.2.1 Historical background**

Corporate governance can be traced back during the creation of East Indian Company, the Hudson's Bay Company and the Levant Company. These companies were opened up in the 16<sup>th</sup> and 17<sup>th</sup> centuries (Jensen, 1986). In US, this concept was first embraced in 1970s (Core, Larcker, & Holthausen, 1999) investors had broadened their corporate governance agenda by developing and publishing policy statements for use as benchmarks to evaluate directors and boards (Jensen,

1986). Major public pension funds began urging boards to remove underperforming CEOs and by 1993, boards of prominent companies such as Westinghouse, American Express, IBM, Kodak and General Motors had complied (Brian et al , 2015). For earlier studies, corporate governance was seen in the perspective of managerial accountability, board structure and share holders' rights and was exercised by large corporations (Randall et al, 2005).

Following fraud scandals in US Corporations, companies involved in appointing more outside directors and creation of audit committees, nomination committees and compensation committees and separation of ownership from management (Brian et al, 2015). Today, corporate governance is seen as a prerequisite for both Large and Small Corporation worldwide in order to vie favorably in the competing economies.

In the context of Uganda, corporate governance is approached in two forms. The mandatory form, also called 'comply or else', and the voluntary one also known as 'comply or explain' (Taddewo, 2018). "The former is where corporate governance standards are enshrined in legal enforceable instruments, with legal penalties for non-compliance, while the latter includes guidelines that contain best practices on particular governance issues such as treatment of shareholders, transparency and accountability among others." According to Winfred (2012), banking standards on corporate governance are mandatory standards.

### **1.2.2 Theoretical background**

The study was guided by the Principal- Agent Theory and the Institutional Theory to explain the effect of corporate governance on financial performance. Principal- Agent Theory was developed

by Stephen et al, 1935) and was improved by Lonnar in 2002. The theory specifies mechanisms which reduce agency loss (Karthleen, 1989). These include; incentive schemes for managers which reward them financially for maximizing shareholder interests.

The agent (manager) undertakes to perform certain duties for the principal (investor) and the principal undertakes to reward the agent (Michael et al , 1976) In relation to this study of Commercial banks, it's expected that a very good structured board composition with a reasonable size and balanced gender will work towards maximizing shareholders wealth hence fulfilling a principal agent duty. Further, reliable audit committees and separation of ownership from control will enhance financial performance of commercial banks (Nsamba, 2014) . Therefore, in relation to this study, directors are agents while investors are shareholders. However, when conflicts between the management and shareholders arise this indicates absence of efficient corporate governance hence affecting the financial performance of such banks.

### **1.2.3 Conceptual background**

According to The UK Corporate Governance Code (2010), corporate governance is a system of rules, practices and processes by which a company is directed and controlled. In Africa, larger boards are considered to be less effective as compared to smaller boards in decision making (Benjamin & Michael, 2003). A lot of training and technical awareness has been extended by the World Bank and the Common Wealth Secretariat to various African countries i.e. Uganda inclusive to help them put in place appropriate mechanisms to promote good corporate governance (World Bank, 2008).

In relation to the study, corporate governance was viewed in the perspective of board composition, audit committees and separation of ownership from control. The study examined the board composition in terms of; size of the board i.e. bigger boards tend to have diversified skills and expertise which can enhance financial performance, board independence, board independence and age of board members that is to say; including young members on the board who consistently engage themselves in research and development in an attempt to outcompete their competitors as opposed to the old theology of having only old members on organizational boards and gender of board members for example having a reasonable number of females on boards as they are believed to be honest and faithful when it comes to managing financial records.

According to Glover & Azembila (2016), audit committee is one of the major operating committees of a company's board of directors that is in charge of overseeing financial reporting and disclosure. The audit committee in this context of commercial banks focused on audit committee independence, audit committee members' qualification, and audit committee diligence. Separation of ownership from control is a phenomenon associated with publicly and privately held business corporations in which the shareholders (the residual claimants) possess little or no direct control over management decisions (Eisenberg et al, 2006).

Financial performance measures can be categorized as either; accounting measures or market-based measures (Al Mamun et al , 2013). Market- based measures of financial performance include but not limited to; interest rates, foreign exchange, macro economy and inflation (Ngoungo, 2012). This study used ROA and ROE which are accounting market- based measures of financial performance. Further, the study focused on examining how shareholders who own

commercial banks are separated from board of directors and managers who are tasked with control and management of banks' daily operations with an intent to enhance financial performance.

#### **1.2.4 Contextual background**

Commercial banking operations in Uganda started in 1906 when the National and Grind lays Bank of Calcutta India opened a branch in Entebbe. Before the emergency of Bank of Uganda, the East African Currency Board (EACB) was carrying out the activities of central banking for the East African Countries (Lawrence, 2010).

In 1962, Uganda commercial bank had fifty branches and where wholly owned by government (UBA, 2017). As of late 2010, the total commercial banks' assets in Uganda were estimated at US\$4.6 billion with 22 licensed commercial banks and nearly 400 bank branches. By April 2011, the number of commercial banks had increased to 23 with a total commercial bank assets valued at US\$4.78 billion (UBA, 2017). According to BOU Annual Report 2017, the total number of licensed commercial banks today are twenty four.

#### **1.3: Statement of the Problem**

With the current competition in the banking sector, managements of commercial banks need to follow good corporate governance mechanisms in order to foster their financial performance (UBA, 2017). For instance, Bank of Uganda through its Acts that is; (1969 & 2000), recommends banks to adopt international corporate governance systems and structures to include but not limited to; audit committees, nomination committees, finance committees and risk assurance committees (BOU Annual Report, 2017).

In the context of Uganda, the question of effect of corporate governance on financial performance has not been fully answered in the business literature and evidence is scanty. The available studies include but not limited to; Waweru (2007); Matama (2008); Tusubira & Isaac (2013); Stephen (2013); Abuga & Mogaka (2014); George, Johnson & Freddie (2014); and these have been conducted in contexts of SACCOS, MFS, SMES, Service Sector Firms and Private Universities. Nevertheless, the evidence from these studies have not been conclusive and partly the major reason is that most of the available studies have relied on cross sectional studies.

Cross sectional studies on financial performance such as banks are hampered by firm heterogeneity and influence of omitted and unobserved variables. Although the use of panel data is ultimate solution, this approach has not been undertaken by many researchers in Uganda. The study therefore, contributes to literature by undertaking a study on the effect of corporate governance on financial performance of commercial banks using panel data generated for 4 years among 23 commercial banks.

#### **1.4: General Objective**

The general objective of the study was to investigate the effect of corporate governance on financial performance of commercial banks in Uganda.

#### **1.5: Specific Objectives**

- i. To examine the effect of board composition on financial performance of commercial banks in Uganda.
- ii. To assess the effect of audit committees on financial performance of commercial banks in

Uganda.

- iii. To analyze the effect of separation of ownership from control on financial performance of commercial banks in Uganda.

### **1.6 : Research Questions**

- i. What is the effect of board composition on financial performance of commercial banks in Uganda?
- ii. What is the effect of audit committees on financial performance of commercial banks in Uganda?
- iii. What is the effect of separation of ownership from control on financial performance of commercial banks in Uganda?

### **1.7 :Scope of the study**

#### **1.7.1 Subject Scope**

The study aimed at investigating the effect of corporate governance on financial performance of commercial banks in Uganda. The study specifically examined the effect of board composition on financial performance of commercial banks, assessed the effect of audit committees on financial performance of commercial banks, and analyzed the effect of separation of ownership from control on financial performance of commercial banks in Uganda.

#### **1.7.2 Geographical Scope**

The geographical scope of the study was the Central Urban Council of Kampala Capital City where all the headquarters of twenty four Ugandan commercial banks are located.

### **1.7.3 Time Scope**

The study was carried out for a period of eight months that is March to November, 2018. The study focused on panel data collected from annual reports of commercial banks for four consecutive years that is from 2014-2017.

### **1.8: Significance of the Study**

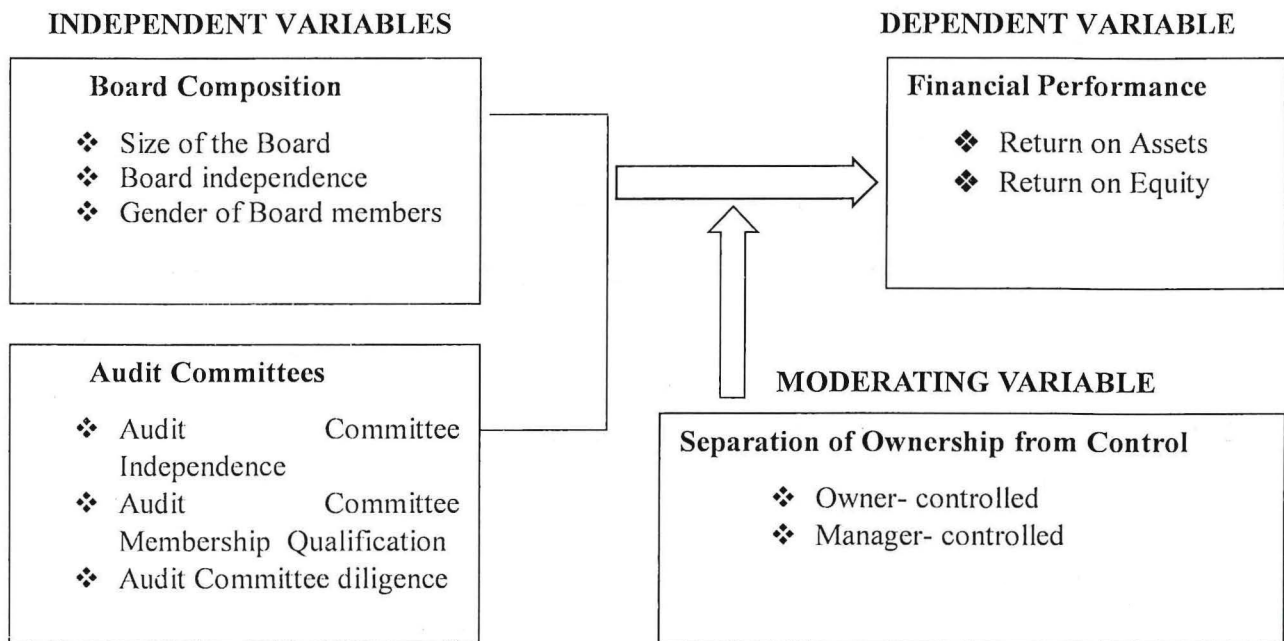
Research findings of this nature will be important to developing nations like Uganda that have not fully embraced corporate governance mechanisms in their entities, help in identifying the essence of corporate governance on financial performance as this will enhance employees' performance and also serve as a basis for future research by providing information on corporate governance in the context of banking sector.

### **1.9: Conceptual framework**

This study focused on corporate governance to explain the financial performance of commercial banks in Uganda. Corporate governance in the study was conceptualized along the dimensions of board composition, audit committees and separation of ownership from control. Building on earlier studies on corporate governance, board composition was measured with three aspects: size of the board, board independence and gender of board members. Audit committees were conceptualized along three variables: audit committee independence, audit committee membership qualification and audit committee diligence. To study the effect of separation of ownership from control, owner-controlled and manager controlled measures were utilized. Financial performance was delineated with return on assets and return on equity. Figure 1 below, gives the anticipated

influence between the different aspects of corporate governance of interest in the study and the financial performance.

**Figure 1: The conceptual framework of corporate governance and financial performance of commercial banks**



**Based on earlier works of Mohammed (2015) and Brummer (2017)**

As can be seen from Figure 1 above, financial performance of commercial banks in a setting such as Uganda, was anticipated to be a function of three aspects of corporate governance identified. Building on the corporate governance literature, agency theory and institutional theory it was specifically conceptualized that board composition and audit committees had a direct effect on the financial performance of commercial banks. This influence was moderated by the separation of ownership of control.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1: Introduction**

This section presents a review of the literature related to the study concepts and the research objectives. The literature in this study has been reviewed putting into consideration works that have been done by other scholars regarding the variables in the study, that is, corporate governance and financial performance. In this chapter, the underlying gaps in the literature that the study intends to fill are specified.

#### **2.2: Theoretical Review**

To investigate the effect of corporate governance on financial performance of commercial banks in Uganda, the Principal-Agency Theory and the Institution Theory were adopted.

##### **2.2.1 The Principal-Agency theory**

Principal-Agency Theory suggests a contract that abides both owners and executives in a relationship known as principal-agent relationship. In reference to this contract, managers have an obligation to serve and satisfy the interests of owners, failure on this, results in agency problems (David, 2012). An agent is a person that acts on behalf of the principal and the principal affects the actions of an agent (Fama et al, 1983).

Executives have superior information which they might use to exploit company resources for achieving their own interests to the detriment of shareholders' interests which in turn lowers the owners' profits (Goodstein et al, 1994). The aim of the agency theory proponents is not only

minimizing the conflict of interests resulting from the separation of ownership and management of firm resources but also between all external and internal stakeholders (Fama et al, 1983).

Mostly, the deviation of interests between the principal and agent is due to lack of corporate governance mechanisms for efficient and effective control, and approval of management decisions (Robert et al, 2013). Sound corporate governance mechanisms that control management's behaviors and actions with an aim to protect shareholders' interests and align these interests with management's interests would reduce agency problems (Elghouti, 2014). Shareholders choose individuals to represent them on the board of directors to guarantee their capital to its intended purpose and improve its control (Robert et al, 2013).

Principals hire external auditors to control the actions of management and approved by the board (Vincent et al, 2011). Agency costs arise from the misalignment of interests between the owners and management). This cost can be reduced if there is close alignment between the goals of principal and agent (Georgeta et al, 2013).

### **2.2.2 The Institutional Theory**

Several research on audit committees have relied heavily on the institutional theory perspectives rather than the agency theory (Zachariadis, 2011). According to DiMaggio & Powel (1983), institutional theory exists in an organisation as long as that organisation consists of structures such as; schemes, rules, norms and routines that are recognized as authoritative guidelines of social behavior.

In relation to this study, the adoption and the operation of audit committees was discussed based on this viewpoint to the extent that the audit committees can influence and be influenced by a variety of agents (Bhardwaj & Rao, 2015) . The audit committees protect the interests of investors and minimize agency problems which are characterized by informational irregularities. Further, these committees are effective bodies that protect the interests of shareholders and ensure reliability of information disclosed (Spira et al, 2003).

### **2.3: Review of Related Literature**

The role of corporate governance has been identified as central to firm performance and this is so because of the tendency of managers and some other stakeholders to engage in unethical business practice that may undermine the rights of “less informed” stakeholders in corporate organizations (Al-Matari et al, 2012). These unethical practices include tampering with the financial statements to give a false impression of the financial health of the organization to the recipients of these reports. Corporate governance is about promoting corporate fairness, transparency and accountability (Ahmadu et al, 2005).

Nevertheless, Beasley et al (2000), described corporate governance as the framework for accounting for decision making, it is effective management relationship within the organization’s integrity to enhance firm performance for the benefit of all stakeholders. Beasley et al (2000), outlined specific benefits of corporate governance to include moral uprightness among organization workforce and it could be counted upon to safeguard the resource and entitlements of all stakeholders. Also, it improves the confidence of the investing public and attracting foreign investors to the companies in particular and the economy in general.

Corporate governance enhances the performance and ensures the conformance of organizations to creating and maintaining a business environment that motivates managers to maximize firm operational efficiency, returns on investment and long-term productivity growth (Adams & Mehran, 2008).

#### **2.4: Effect of board composition on financial performance of commercial banks in Uganda**

A number of Scholars have studied the effect of board composition on financial performance and various conclusions have been made; Victor-Octavian Muller (2014); George, Johnson, & Freddie (2014); Ahmed and Ftouhi (2016); Waweru & Assumptah (2013); Muchemwa (2016); Kartal, (2018); Philip and Steven, (2012); Barry & Butler, (2010); Beasley, (2012); Ibrahim et al (2014); Sanjai & Bernard (2010); Guest, (2009); Cheng (2008); Gunes & Atilgan, (2016); Rahman & Haniffa (2006); Berghe & Levrau (2009); Roman & Persida (2012), Hamdan et al (2013); OECD, (2004); Yu et al (2014); Bhagat & Black (2015); Erickson et al (2014); MacAvoy & Millstein (2008); Nyarige (2012).

According to Victor (2014), in a study to explore the impact of board composition on financial performance of Financial Times Stock Exchange 100 Index constituents, found out that board independence and the amount of foreign directors in the total number of directors (as characteristics of corporate board composition) had a significant strong positive impact on firm performance (both contemporaneous and subsequent).

Further, George et al (2014), in their research to find out the relationship between the core principles of corporate governance and financial performance in commercial banks of Uganda,

found out that corporate governance predicted 34.5% of the deviations in the financial performance of commercial banks in Uganda.

Ahmed & Ftouhi (2013), In their study the effects of board of directors' characteristics on tax aggressiveness, which based on the analysis of a sample of 73 French companies on the SBF 120 index for the period 2006-2010, assert that bigger proportions of outside members on the board of directors tend to condense the likelihood of declining financial performance.

Waweru et al (2013), studied the effects of board composition on financial performance of banking institutions listed at Nairobi Securities Exchange found out that board size positively affected financial performance of commercial banks listed at the NSE, the proportion of dependent and executive directors positively affected financial performance at the NSE.

Similarly, results of inferential statistics indicated a positive effect of financial performance of banks listed at the NSE as revealed by the p values. Muchema et al (2016), asserts that board composition is the amount and the type of board participants, board demographics, board arrangement and evaluation, and board management. Board composition is a crucial factor affecting firm financial performance.

A board performs majorly the following responsibilities; connects the organization to its environment and safeguards serious resources, fulfills internal control and monitoring task and eliminates non performing management teams (Aanu et al, 2014).

This study particularly focuses on various aspects of board composition namely; gender of the board members, size of the board and age of board members as part of board demographics and composition (Benjamin et al, 2003). It has been established that age of board members has an effect on firm's performance i.e. having reasonably young members on board leads to an increase in firm's performance (Ibrahim et al, 2014).

Roman & Persida (2012), in their study, corporate governance and the board of directors: performance effects of changes in board composition, studied 484 of the S&P 500 firms, found out that boards were dominated by more than 56% of the surveyed firms had only one or two inside directors, hence proving that many companies have supermajority independent boards with only one or two directors.

Guest (2008), studied most of major U.S Corporations both formal and informal and found out that they had executed the formal retirement policies of board members and by 2012, the percentage had increased from 44 to 67 percent. The principal reason behind this trend seems to be the presumption that younger board members are more vigorous and provide more continuity into the future than older board members (Beasley (2012); Kartal (2018)). According to Guest (2008); Philip (2012) argued that larger boards may be less efficient because of difficulties which may arise from solving agency problems among members. Cheng (2008), studied the effect of different board sizes on variability of corporate performance. Results showed that larger boards make less extreme decisions, and therefore have less variable performance she went ahead to show that smaller boards are more likely to have extreme short wins and losses.

Similarly with the business environment becoming gradually turbulent, active and participatory boards may become increasingly important hence a need for young members on boards Bhagwat & Black, (2012); Aglietta & Michael (2005); Benjamin et al (2010). They further asserted that, positive relationship is expected between firm performance and the proportion of outside director sitting on the board, unlike inside directors, outside director are better able to challenge the CEOs. It is perhaps in recognition of the role of outside directors that in UK, a minimum of three outside directors is required on the board and also in the US, the regulation requires that they constitute at least two third of the board (Yu et al, 2014).

An effective board depends on both the diverse collection of skills and competencies that individual director bring with them and the training that the board provides to help directors as well as managers to master board issues and develop the skills needed to participate effectively (Gunes et al, 2016). Effective governance also depends on an effective selection process for new directors, which in turn rests on a clear definition of what the duties of a director are, Organization for Economic Co-operation and Development (OECD, 2004).

According to studies by Hamdan et al (2013), have produced evidence in support of a significant positive relationship between board composition and firm performance. Financial performance is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. This study followed predominant approaches and two financial measures of a firm performance, the Return on Asset and Return on Equity which also fit into accounting-based measures, (Terry et al, 2009).

It is argued that financial performance of a firm can be used to determine its operating performance i.e. translates the firm's performance in quantifiable metrics. It is also used to compare similar firms across the same industry or to compare industries or sectors in aggregation, thus helping managers in decision making that is: provides an overall picture of how a firm is performing over time (Chan et al, 2012).

According to Abigail (2013), the board of directors needs to have a proper structure which involves several dimensions; diversity and complimentary, proportion of inside directors and outside directors, experience and knowledge of directors and size of the board. They further contended that an appropriate board should comprise a mix of members with different personalities and educational, occupational and functional backgrounds. Nevertheless these qualities must be complementary.

Hamdan et al (2013), contended that institutional investors perceive corporate governance as a tool for extracting value for shareholders from under-performing and undervalued companies. Targeting companies that are under performing and analyzing their corporate governance practices can lead to improvements that unlock a company's hidden value (Steven, 2013). These improvements often include replacing less effective and poorly performing directors and ensuring that the companies comply with perceived best practice in corporate governance.

According to Erickson et al (2014), in their study found out that corporations with active and independent boards appeared to perform much better than those with passive, non-independent boards. Majority of investors prepare to pay a premium to invest in a company with good corporate

governance. Chan et al (2012). Argued that companies with good and well-structured boards exhibit fewer conflicts.

## **2.5: Effect of audit committees on financial performance of commercial banks in Uganda**

Several studies have been documented by different scholars to explore the effect of audit committees on financial performance and various conclusions have been drawn. These include but not limited to; Karamanou & Vefas, (2005); Pepffer (2004); Lin, Li, & Yang, (2006); Michael (2009); Mohammed & Aiman (2014); Parker & Peter (2009); Kunkel (2014); Li & Wearing (2008); Bear (2010); Adams (2012); Dave (2013); Syed et al (2014); Aanu et al (2014); Hamdan et al (2013); Cohen et al (2014).

Karamanou & Vefas (2005), assert that an audit committee assesses the quality of financial statements, coordinates the communication between internal and external auditors of the company. Benjamin et al (2010), argued that auditors of higher quality are less willing to accept doubtful accounting methods and are more likely to report errors and irregularities revealed during the audit work. Thus, the external auditor is considered to have an influence on the efficacy of the firm's monitoring function.

Mohamed et al (2014), examined the association between the audit committee effectiveness, audit quality and earnings management practices of more active 50 Egyptian companies listed on the Egyptian Stock Exchange of the non-financial sector during the period 2007- 2010. They found out that audit committees' independence, experience of audit committee members, audit committee meetings and audit quality have negative association with discretionary accruals as a

proxy for earnings management. Similarly, no significant relationship was found out between audit committees' size and the level of discretionary accruals.

Organizations to benefit thoroughly from members who form audit committees, they must possess some skills in accounting, finance and related fields (Lin et al, 2006). Further, they commended that female non-executive directors who sit on the audit committee cannot easily get promotions to higher positions such as chairperson of the audit committee.

According to Syed et al (2014), assessed the impact of audit committees on the performance of listed deposit money banks in Nigeria. The study made use of panel data analyzing a sample of 16 banks through census sampling technique. The study reveals a significant positive relationship between components of audit committee (size) and the performance of listed deposit money banks in Nigeria. Further, Audit committee independence positively impacts the firm performance (Chan *et al*, 2008).

Aanu et al (2014), discovers the influence of audit committee effectiveness on firm's performance of twenty five manufacturing firms in Nigeria using four characteristics: independence, financial expertise, size, and meetings of the audit committee. The performance measures were Return on Equity (ROE), Return on Asset (ROA) and Return on Capital Employed (ROCE). The study utilized panel data for 8 years i.e. 2004-2011. Results of the analysis revealed that size of audit committee has no significant relationship with all performance.

Hamdan et al (2013), investigated the relationship between audit committee characteristics (specifically: audit committee size, financial experience, and audit committee independence) on performance taking into considerations, financial performance, operating performance and stock performance. The study sample contained 106 corporations from the financial sector of Amman which were listed on the Stock Exchange Market with a total of 212 observations of two years i.e. 2008-2009. The results showed that the audit committee size had a significant impact on financial performance and stock performance. Further, the study findings didn't have an effect on operating performance.

Cohen et al (2014) establish the effect of audit committee size and experience on firm performance among listed firms in Nairobi Securities Exchange for the period ranging from 2006 to 2011. The study was cognizant with the agency theory and institutional theory. Multiple Regressions was used to test hypothesis. Research findings showed that audit committee experience and audit committee size has a significant effect on firm performance. Further Carter (2008), asserts that audit committees with a substantial number of female directors would function differently as compared with a Committee comprising of only male directors. Further, Kunkel (2014), asserts that female audit committee members are competent, active, emotionally stable, rational and less hostile as compared to their male counterparts, hence females are more prone to detecting firm's potential financial reporting.

Shareholders rely on external auditors to provide assurance that the financial statements of a firm are not misleading. Thus, independence is a crucial factor for external auditors in adequately satisfying their auditing function (Aglietta et al, 2010). They further suggested that the audit

committee is a subcommittee of the main board of directors, with a remit covering issues relating to financial reporting, audit and internal financial control whose output consists of reports and recommendations to the main board.

According to Laura (2009), observed that the description of the roles of the Audit Committee terms such as to; review, discuss, recommend, undertake and examine were used to indicate the nature of their responsibilities. They are terms that suggest oversight functions on activities or roles performed by a third party.

Thomas (2008); Dave (2013), found out that institutions that had members on the audit committee with banking as well as financial reporting experience reported significantly more effective internal controls as compared to those institutions whose audit committee members lacked financial expertise.

## **2.6: Effect of separation of ownership from control on financial performance of commercial banks in Uganda**

A number of scholars have studied the effect of separation of ownership from control on financial performance and many conclusions made on that effect. To include but not limited to; Nuryaman (2012); Mitnick (2006); Crossan (2011); Beasley (2010); Blanche & Lesley (2013); Carter (2008); Bergstresser & Philippon (2010); Teshima and Shuto (2014); Amarjit et al (2013); Mehmet, Suleiman & Mustafa (2014); Wafa & Younes (2014); Alves (2012); Syed & Mukaran (2014); Zubair (2016); Chan & Li (2008); Aanu & Foyeke (2014).

The corporation, in contrast, for example, to a partnership, separates ownership from operational control (Nuryaman, 2012). Further, explains that, it's this separation which creates the need for systems of independent monitoring and control (Crossman, 2011). Benjamin et al (2003), examined the relationship between board of director composition and the occurrence of financial statement fraud of 150 firms which were active on the stock exchange market. Results showed that no-fraud firms had boards with significantly higher percentages of outside members than fraud firms. Further, none-fraud firms had significantly ( $p < .01$ ) higher percentages of outside directors than fraud firms.

Mohamed et al (2014), in his study the effect of separation between ownership and control on firm performance evidence from UAE, found out that owner- controlled firms outperformed the manager-controlled firms. Blanche & Lesley (2013), in their study the separation of ownership and control in South African- listed companies, found out that majority of listed companies in South Africa are controlled by a dominant shareholder, they further argued that there are still a significant number of companies where the directors have de facto control.

Carter (2008), found out that insider ownership and representation on the board is associated with lower involvement in strategic decision making. Similarly, Bear 2010 in his study the implication of separation of ownership and fraud found out that fraud was more likely in a firm where inside directors had a substantial share ownership. Bergstresser et al (2010), examined the relationship between accruals and managerial ownership, and found out that as CEO's compensation was more closely tied to the value of stock, the more likely that discretionary accruals could be used to manipulate profits.

In the same vein, Teshima et al (2014), examined the influence of managerial ownership on earnings management of Manufacturing Companies in Tokyo using discretionary accruals and found out that at higher managerial levels, monitoring ceases to be stronger and therefore, a positive association is predictable between the managerial ownership and earnings management.

Mehmet et al (2014), in their study- the effects of corporate ownership structure and board size on earnings management, evidence from Turkey found out that the institutional ownership and the board size have a negative significant effect on the earnings management whereas the effect of the managerial ownership on the earnings management has positively statistically significant.

Amarjit et al (2013), studied the relationship between ownership structure and earnings quality in the French context with a sample of 117 French companies belonging to the SBF 250 index during the period of 2003-2011, the results showed that managerial ownership had a positive impact on the earnings management. Further, the ownership concentration and institutional ownership had a positive effect on the earnings informativeness with a non-linear relationship only for ownership concentration and institutional ownership.

According to Alves (2012), in the study- the effect of ownership structure and earnings management; Evidence from Portugal using a sample of 34 non-financial listed Portuguese firms for years from 2001 to 2007 and found out that discretionary accruals as a proxy for earnings management is negatively related both to managerial ownership and to ownership concentration. The same study suggested that both managerial ownership and ownership concentration improve the quality of annual earnings by reducing the levels of earnings management. Erickson et al

(2014), stated that independent directors can minimize agency problems. In reference to the assertion they also argued that independent audit committee can also reduce the agency problems.

### **2.7: Empirical literature review and knowledge gap**

From the literature review above, good corporate governance is of paramount importance in all organizations regardless of their industry, size or level of growth. Good corporate governance will have a positive economic impact on the commercial banks in question as it can save them from various losses occasioned by frauds, corruption and similar irregularities.

The literature establishes that good corporate governance results in a lower cost of capital due to a limitation to the risk on the investment. This in essence guarantees investors a payback on returns to their investments. Good governance is also an indication of lower agency costs. The studies cited in the literature above mostly concentrate on corporate governance and financial performance of organizations of developed countries whose strategic approaches and corporate governance systems are not similar to those of Uganda.

Nonetheless, in Uganda, some scholars have conducted a number research on corporate governance and financial performance in the contexts of SACCOS, Manufacturing firms, SMES, service sector firms and private universities, but no comprehensive studies have been carried out on corporate governance and financial performance in the context of commercial banks specifically utilizing panel data. Therefore, the study intended to fill this gap by investigating the effect of corporate governance on financial performance of commercial banks.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1: Introduction**

This chapter presents the scientific and logical steps that were followed in designing the study, execution and analysis of the study findings. It also addresses the ethical issues underling the study. The specific issues presented in this chapter include a discussion on the research design, population and sample of the study as well as how the sample was selected, data collection procedures and methods, model specification and analysis, measurement of the study variables, issues of reliability and validity, analysis and ethical considerations in the study.

#### **3.2: Research Design**

The research design for this study was a longitudinal survey design. Similarly, a mixed methods approach, specifically convergent mixed methods design was adopted (Creswell, 2017). In a convergent mixed methods design, both the quantitative and qualitative findings are presented together in comparison (Bryman, 2006). The choice for this particular form of mixed study was particularly motivated by the need to develop a better understanding of the research problem through juxtaposition of both the stories and the statistical data (Creswell et al, 2011). In the quantitative study, a longitudinal study was adopted because the study on the phenomenon was structured to take place for four years specifically utilizing panel data.

In relation to the scope in the design, a survey design was adopted where many commercial banks were included in the study to allow for statistical inference. And lastly, the purpose aspect in the

quantitative part of this study, the study was structured to achieve explanation of the effects of the relationships underlying in the study.

### **3.3: Population of the study**

In this study, the interest of the study was commercial banking sub-sector. Following the liberalization of Ugandan economy, the banking sector has attracted a number of banks with the current statistics indicating a population of 24 commercial banks (Bategeka et al, 2017).

Commercial banks in Uganda are classified into two categories; as either public or private and domestic or foreign. It can be noted that 21 banks (87.5%) of existing commercial banks are foreign- owned whereas 3 banks (12.5%) are domestically - owned (Gupta, 2017). Further, five of these banks (Bank of Baroda, DFCU, Equity Bank Uganda Limited, KCB Bank Uganda Limited, and Stanbic Bank Uganda Limited) are listed on Uganda Security Exchange (BOU, 2017).

In this study, both domestic and foreign banks were of interest. As a result for the quantitative study, the study population of this study was all the 24 commercial banks that make up the commercial banking sector in Uganda. For the qualitative part of the study, the interest was in identifying and studying 3 banks from each of the two categories of banks in the sector, i.e., 3 foreign commercial banks and 3 domestic commercial banks.

#### **3.3.1 Sample size**

Given that in the quantitative study sample size is critical in the nature of the results that can be obtained, all the banks of interest were considered for statistical analysis. Further, since there were

only 23 commercial banks which had readily available and accessible annual reports, the sample was still small for meaningful statistics, in the study a panel of 4 years i.e. (2014-2017) was conducted. This therefore, brought the observations to 92 data points.

For qualitative research, the common method used to establish the sample is getting to the point of saturation. In this study, this approach was utilized to obtain the sample size of commercial banks that were included in the study.

### **3.4: Data Collection**

#### **3.4.1 Quantitative data collection**

For the quantitative study, secondary data was utilized. This data was collected from annual reports of commercial banks. A document checklist was prepared to enable and guide the study in collecting data. This document was used because data being collected was secondary in nature.

#### **3.4.2 Qualitative data collection**

Research instruments can either be in the form of interviews or questionnaires (Creswell, 2017). Questionnaires can either be structured, semi structured or both (Roxan et al, 2017). Further, they can also be in form of observational schedules, log books or standard forms for recording data from records.

In this study, an interview guide was used to collect data. Interviews are considered primary data sources since they collect qualitative information for a specific study (Sauders et al, 2012). All interviews for this study were conducted face-to-face with top officials of the banks under study.

**3.5: Model specification and analysis**

The study made use of a regression analysis to establish the effect of corporate governance on financial performance of commercial banks in Uganda. The study intended to analyze which and how much the hypothesized independent variables were related to banks' financial performance. The dependent variable (financial performance) was captured by the bank's ROA and ROE during the periods under study. To conduct quantitative data analysis, a multivariate regression analysis on panel data was used to empirically answer the study research questions . Using combinations of variables, four linear regression equations were estimated for board composition and four regression equations for audit committees as follow:

**Board composition and financial performance regression equations**

$$ROA_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 Z_{it} + \epsilon_{it} \dots\dots\dots(1)$$

$$ROE_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 Z_{it} + \epsilon_{it} \dots\dots\dots(2)$$

**Where;**

*i* is an individual bank, *t* is time

ROA and ROE are dependent variables that represent the financial performance of banks

X represent the vector of board composition variables and include board size, board independence and gender of board members

Z represent the vector of bank performance control variables and include firm leverage, total assets, total revenue, number of employees, years of operations and number of branches of the bank.

$\epsilon_{it}$  Is error term

$\beta_0$  and  $\beta_1$  Are model intercepts and slope coefficients

**Audit committees and financial performance regression equations**

$$ROA_{it} = \beta_0 + \beta_1 W_{it} + \beta_2 Z_{it} + \varepsilon_{it} \dots \dots \dots (3)$$

$$ROE_{it} = \beta_0 + \beta_1 W_{it} + \beta_2 Z_{it} + \varepsilon_{it} \dots \dots \dots (4)$$

**Where;**

*i* is an individual bank, *t* is time

ROA and ROE are dependent variables that represent the financial performance of banks

W represent the vector of Audit committee variables and include audit committee independence, audit committee member’s qualification and audit committee diligence.

Z represent the vector of bank performance control variables and include firm leverage, total assets, total revenue, number of employees, years of operations and number of branches of the bank.

**Separation of ownership from control and financial performance regression equations**

$$ROA_{it} = \beta_0 + \beta_1 Y_{it} + \beta_2 Z_{it} + \varepsilon_{it} \dots \dots \dots (5)$$

$$ROE_{it} = \beta_0 + \beta_1 Y_{it} + \beta_2 Z_{it} + \varepsilon_{it} \dots \dots \dots (6)$$

**Where;**

Y represent the vector of separation of ownership from control variables and include owner-controlled and manager-controlled.

$\varepsilon_{it}$  is error term

$\beta_0$  and  $\beta_1$  Are model intercepts and slope coefficients

### **3.6: Measurement of study variables**

The dependent and independent variables were measured using items adapted from existing studies utilizing similar constructs. In the sections that follow, each of the variable with its respective items and sources of the items is presented.

#### **3.6.1 Dependent variables**

Financial performance. Financial performance measures can be categorized as either; accounting measures or market- based measures (Al Mamun et al , 2013). Market- based measures of financial performance include but not limited to; interest rates, foreign exchange, macro economy and inflation (Ngoungo, 2012). This study used ROA and ROE which are accounting market- based measures of financial performance.

ROA and ROE are the popular value based measures of financial performance (Habbash et al, 2014) ROA determines a firm's growth over the study period. It is calculated as net income by total assets. ROE is the ratio of net income by book equity, the higher the ratio, the greater the rate of return investors are expecting to earn (Hoffschwelle, 2011). These ratios are used by analysts and investors who believe that the higher the return on assets and equity, the better the financial performance of that firm (Al Mamun et al , 2013).

#### **3.6.2 Independent variables**

Corporate governance. Corporate governance is made up of two types of mechanisms; internal audit mechanisms and external monitoring mechanisms (Kumar et al, 2012). Company activities are monitored and controlled through internal activities whereas, external mechanisms are

accountable for external stakeholders (Vintila et al, 2012). Nonetheless, both mechanisms can be used to align the interests of all company's stakeholders. In this study, some of corporate mechanisms are reviewed showing how they reduce the inefficiencies that arise from opportunistic human behavior (Ngoungo, 2012).

Board composition. The board of directors is seen as a team of members with fiduciary responsibilities of directing and leading company activities with the key objective of protecting the interests of company's shareholders and other stakeholders (Hoffschwelle, 2011). According to Habbash et al (2014), the board is set to achieve three critical roles; Agency theory responsibilities, resource dependence responsibilities, and legal responsibilities. There is no optimal size for the board (Kumar et al, 2012). Smaller boards can help enhance firm performance because they allow members to engage in genuine interaction and debates (Al Mamun et al , 2013). A study by Ngoungo (2014), found out that younger boards generally outperformed older boards, suggesting the likelihood that younger boards might be more innovative and possibly more willing to participate in the monitoring process.

Audit committees. Board of directors should form an audit committee and its members should not be less than three, among them a specialist in accounting and finance matters. The committee members should be independent from any form of impairment (Cohen et al, 2014). Shareholders through their general assembly should issue the rules for the formation, appointment and duration of term of service by this committee (Cohen et al, 2013).

Further, an audit committee reviews the internal accounting system and control process, and holds meetings with the external auditors frequently to assess financial statements (Habbash et al, 2014). It also acts as a supplementary monitoring mechanism to make sure that the interests of shareholders are safeguarded (Kumar et al, 2012). The audit committee improves monitoring by enhancing the flow of information between firm shareholders and managers.

Separation of ownership from control. The degree of ownership concentration in a firm a company identifies how power and authority are disseminated between the managers and shareholders. Concentrated ownership reflects the proportion of the company shares owned by the greatest shareholders, which may tend to exert pressure on managers to adopt a corporate behavior of maximizing their wealth (Vintila et al, 2014). Nevertheless, there are competing arguments on whether ownership concentration is beneficial or detrimental to the company outside shareholders

### **3.6.3 Control variables**

Firm leverage. Leverage is as a result of using borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital (Pike et al , 2002) it's another strategy of using borrowed money such as financial instruments to increase the potential return of an investment. Therefore, its amount of debt a firm uses to finance assets. Leverage can be measured as total liabilities to total assets ratio. Firm size. Terry et al (2009), in their study; measuring firm size in empirical corporate finance, examined the influence of employing different proxies (total assets, total sales and market capitalization) of firm size in 20 prominent areas in empirical corporate finance research. The findings indicated that different proxies have different implications on corporate finance. This study adopted total assets, total revenue and number of employees as proxies for measuring firm size.

**Table 1: Illustrating measurement of variables in the study**

Variable	Proxies	Measurement	Measured in accordance with Financial Institutions Act 2004
Board Composition	Board size	Total number of directors on the board	At least 9 members on the board
	Board independence	% of outside members on the board	At least 75% board members from outside
	Gender of board members	Proportion of female to male directors sitting on the board	At least a female member on the board
Audit Committees	Audit committee independence	% of outside members on the AC	Recommends 75% membership from outside
	Audit committee members' qualification	Proportion of AC members with financial expertise	At least one member with financial expertise
	Audit committee diligence	Frequency of audit committee meetings	Four (4) times a year
Separation of ownership from control	Owner- controlled	% of investor shareholdings	Not specified in the Act
	Manager- controlled	% of directors shareholdings	Not specified in the Act
Financial Performance	ROA	Net income divided by total assets	Bank based
	ROE	Net income divided by average shareholders' equity	Bank based

Source: Primary data, 2018

### 3.7: Reliability and Validity

#### 3.7.1 Quantitative study

According to Hoffschwelle (2011), reliability results from a process that produces consistent, dependable, replicable findings and confirmed by previous studies. In this study issues of dependability, transferability and conformability were addressed in the following ways;

Transferability which relates to external validity were addressed by producing rich and thick descriptions of the setting, and study findings.

Dependability, which reflects reliability were achieved through proper and thorough examination of all documents to be used in the study. To ensure conformability, the study ensured that all the annual reports are reviewed in comparison with the document check list to address any kind of omissions and bias.

### **3.7.2 Qualitative reliability and validity**

Qualitative research bases on trustworthiness to ensure credibility of the study findings (Roxan et al, 2017). Rigor of qualitative research has been argued to equate to reliability and validity and all the necessary components of quality. Similarly, Saunders et al (2012), suggested a number of measures to minimize bias during qualitative studies to include but not limited to; acknowledging biases in sampling, making accountability for personal biases and data triangulation. In this study, the supervisors' comments were utilized to correct and improve the interview guide.

### **3.8: Ethical considerations**

Ethics are the standards of behavior that guide a study in relation to the right of those who become the subject of work, or affected by it (Saunders, 2012). The researcher got approval from Graduate School of Kyambogo University in quest of permission to continue with data collection. All the necessary requirements and suggestions were incorporated in the process of data collection to protect the respondents who participated in the interview exercise.

Further, for the qualitative study where interviews were conducted, consent was sought from any participant before being enrolled in the study and the study ensured participants voluntarily participate in the study. Finally, the study ensured utmost confidentiality of those participating in the interview process as well as the banks involved in the study by concealing their names and other information. This was possible by using codes to refer to participants and banks involved.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.1: Introduction

In this section the discussion of these findings is given. The first section demonstrates the descriptive statistics of the selected variables, sample characteristics of bank's corporate governance and financial performance this is followed with the discussion of the regression analysis of the results with regards to corporate governance and financial performance. The last section addresses the interpretation of the findings.

**Table 2: Shows overall descriptive statistics of the selected variables**

Variable	Min	Max	Mean	SD
Return on Assets	-8	5.15	1.35	2.01
Return on Equity	-24.38	30.3	7.61	10.16
Board Size	3	14	8.15	2.26
Board Independence	0.8	88.9	69.34	12.75
Board Gender Diversity	0.25	1	0.78	0.17
Audit Committee Independence	33.3	100	75.71	20.01
Audit Committee Qualification	1	4	2.13	0.83
Audit Committee Diligence	3	4	3.67	0.47
Firm Leverage	0.040	83.2	1.61	8.60
Total Assets UGX Billion	2.21	5.40	7.32	1.01
Revenue UGX Billion	1.47	1.94	1.76	3.72
No of Employees	10	2400	409.34	550.44
No of years in operation	1	112	32.02	28.70
No of branches	1	93	22	25.37

Source: Primary data, 2018

Number of observations 92

Return on Assets indicated a negative minimum value of 8% and maximum value of 5.15% implying that within the commercial banking sector and the study period, there was a bank that did not earn profits in relation to its overall resources invested hence recording an 8% loss, while the highest ROA indicated was 5.15%. The mean value for return on assets was 1.35 within the study period indicating that on average commercial banks recorded 1.35%. The standard deviation for return on assets of commercial banks was 2.01% slightly equivalent to its mean implying that the deviation of the mean from actual was not too significant.

Further, Return on Equity showed a negative minimum value of 24.38% and a maximum value of 30.3% an indication that during the study period, a particular bank did not earn profits in relation to the money shareholders had invested while the highest ROE indicated was 30.3%. The mean value for return on equity was 7.61 within the study period that on average commercial banks recorded 7.61%. The standard deviation for return on equity of commercial banks was 10.16%, implying that the deviation of the mean from actual was not too grievous.

The board of director's size had a minimum value of three (3) and a maximum value of fourteen (14) members, implying that there was a bank that did not comply with the minimum value of five (5) members of the board of directors as specified by the Financial Institutions Act 2004 Sec 52 (1), which stipulates that every financial institution shall have a board of directors of not less than five (5) directors. Board of director's size showed a mean value of 8.15, implying that on average, most of the banks complied with the minimum value of five directors. The standard deviation of the board size was 2.26 less than the mean implying that the mean value recorded was the true average for commercial banks.

Board of directors had a minimum 0.8 and a maximum of 88.8% outside members on the board. This indicates that most boards of commercial banks composed of majority of outsiders which is in agreement with the Financial Institutions Act 2004 Sec 52 (3) which specifies that not more than fifty percent of the directors of the financial institution shall be employees of the financial institution or any subsidiaries or affiliates except in such cases where the Central bank is satisfied.

The boards of commercial banks had an average value of 69.34 implying than more than half of the members of the boards were comprised of outside members which is in agreement with the Financial Institutions Act 2004 Sec 52 (3). Further, the standard deviation of 12.75 for this variable implies that its mean is a true average with little deviation from the actual.

The ratio of males to females on the board of directors had a minimum of 0.25 and a maximum of one (1). An indication that board members were both males and females. There was no any board of any bank that did not meet the criteria of gender diversity as prescribed by the Financial Institutions Act 2004. Additionally, on average the ratio of males to females was 0.78 with a standard deviation of 0.17 lower than the mean implying that the deviation of the mean from the actual results was not too grievous.

Audit committee had a minimum 33.3% and a maximum of 100% outside members on the committee. This shows that most audit committees of commercial banks composed of majority of outsiders which is in agreement with the Financial Institutions Act 2004 Sec 59 (1) which requires the board of directors to constitute from among its members , a committee on audit consisting of not less than two persons. Further, the Act exerts that for independence, the majority members on

this committee shall not be employees of the financial institution or any subsidiaries or affiliates except in such cases where the Central bank is satisfied. Audit committees of commercial banks had a mean value of 75.71 implying that more than three quarters of the members who constituted audit committees were outside members which is in agreement with the criteria prescribed by the Financial Institutions Act 2004 Sec 59. Further, the standard deviation of 20.01 for this variable implies that its mean is a true average with slight deviation from the actual results.

Audit committee members' qualification had a minimum value of one (1) and a maximum value of four (4). This implies that the minimum number of members of audit committee with knowledge of accounting and finance was one member while the maximum number of such committee with financial knowledge was four (4) members. The average number of audit committee that is financial literate stood at about 3 members. This number of members meets the criteria of the Financial Institutions Act 2004 and the Financial Institution (Amendment) Act 2016, which specify that at least a member on the audit committee of a financial institution shall have financial expertise. The standard deviation of 0.83 for audit committee qualification showed that the average value recorded represent the true mean.

Audit committee meetings recorded a minimum value of three (3) and maximum value of four (4), implying that the lowest number of meetings which were held by the banks within the study period was three times, while the highest number of times the audit committee met was four times. This is in agreement with the requirements of the Financial Institutions Act 2004 Sec 59 (5) that the committee on audit shall meet once in every quarter of the financial year of the financial institution. However, on the average, the number of meetings held by the audit committees was about three

(3) times, implying that most of the committees sat not less than three times in a year. The standard deviation of 0.47 which was recorded implies that the mean value for audit committee meetings was the true mean for the commercial banks.

**Table 3: Shows the average characteristics of corporate governance variables and financial performance variables of commercial banks**

Description	Year			
	2014	2015	2016	2017
<b>Board composition</b>	Average			
Board size (number)	7.7	8.0	8.4	8.6
Board independence (%)	70.6	70.0	69.7	67.0
Board gender diversity (ratio of female to male)	0.76	0.8	0.79	0.8
<b>Audit committees</b>				
Audit Committee Independence (%)	74.5	74.1	75.9	78.4
Audit Committee Members' Qualification (Number)	1.9	2.0	2.2	2.4
Audit Committee diligence (Frequency)	3.7	3.7	3.6	3.7
<b>Financial performance</b>				
ROE (%)	1.51	1.5	1.29	1.11
ROA (%)	7.33	7.9	8.02	7.16

**Source: Primary data, 2018**

The average size of the board members for banks ranges between 7.7 and 8.6 for the period between 2014 and 2017. Board independence measured by the percentage of outside members on the board is 67% and more for all the four years implying that most commercial banks have at least two thirds of their members on boards from outside. The ratio of female to male board members that measures board diversity is less than one, which implies that most boards of commercial banks have more males than females which is a general characteristic of boards in developing countries.

The results further show that the percentage of outside members on audit committees, as a measure of audit committees' independence are more than 70%. This implies that more than a third of audit committee membership are from outside members and therefore are expected to be independent in decision making. In terms of qualification and expertise, it is evident that approximately two members of audit committee members have qualifications and expertise in accounting and finance.

Depending on the number of audit committee membership, lack of members with the adequate experience and training in relevant accounting and finance may affect advice and decision making of the audit committees. The Financial Institutions Act 2004 Sec 59(5) on pronouncement on the frequency of audit committee meetings suggest that at least 4 meetings are adequate in year. The results in the table show that more than three meetings are conducted by audit committee members in year, a figure that is approximately close to the recommended meetings.

The results in table 3 show that in respect to financial performance of banks, the average ROA and ROE percentage are higher than one an indication that the overall return on assets and equity are positive for every asset and equity investment. However, the return on assets is higher than the return on equity over the study period.

#### **4.2: Regression analysis**

This section presents the analysis of multiple regression models. In the study, six models were specified to address the three objectives of the study since the dependent variable was captured by two outcomes, ROA and ROE. The section presents the choice of model estimation approach common in panel data analysis (Fixed effects or Random effects) and results from the model

estimated. The results for board composition, audit committees effects and separation of ownership from control on financial performance were presented separately for easy and clear interpretations.

### **4.3: Model estimation approach**

Available studies on corporate governance and financial performance reveal that observable and unobservable firm and industry characteristics can explain the effect of corporate governance on financial performance. Using panel data, many of these studies have used a fixed-effects approach to capture the effect of unobservable characteristics assuming that they are not time varying.

Nevertheless, the fixed effects approach may not always be appropriate because firm characteristics such as market power, intangibles, monitoring technologies and managerial skill can clearly vary over time thereby decreasing the appropriateness of the fixed-effects approach (Richard et al, 2018).

Nonetheless, empirical evidence has revealed that fixed-effect model estimation approach has low power in examining both effect and the relationship between corporate governance and performance of firms (Richard et al, 2018). Therefore, it was imperative to assess which model estimation approach was appropriate between the fixed effects and random effects model to estimate the specified models. Hausman specification test was used to choose between fixed effects model and random effects model. The null hypothesis of the Hausman test is that the preferred model is random effects vs. the alternative the fixed effects. It basically tests whether the unique errors ( $u_i$ ) are correlated with the regressors. The rule of thumb is that if the probability value of  $\chi^2$  is less than 0.05 at 95% level of significance, fixed effects is preferred otherwise random effects model.

In the study, the Hausman test results (p-value) was greater than 0.05 for all specifications and therefore random effects model were estimated for all the eight model specifications. Breusch-Pagan Lagrange multiplier (LM) was also estimated to check for panel effect since the Hausman specification test favors the random. Using the xttset0 Stata command, the results LM test were statistically significant (p-value <0.05) rejecting the null and conclude that random effects is the appropriate model estimation approach over the Pooled Ordinary Least square method.

#### **4.4: Effect of board composition on financial performance of commercial banks**

The results presented in Table 3 presents the regression results of the two models that were estimated to show the effect of board composition on financial performance of commercial banks. The model 1 and 2 presents the effect of board composition variables on ROA and ROE controlling for other factors that affect financial performance.

**Table 3: Shows Random effects regression results for board composition and financial performance of commercial banks**

<b>VARIABLES</b>	<b>Model 1 FP ROA</b>	<b>Model 2 FP ROE</b>
<b>Board Size</b>	-0.188*	-0.277
	-0.104	-0.447
<b>Board Independence</b>	0.00121	0.0870*
	-0.0103	-0.0461
<b>Board Gender Diversity</b>	-1.859	-1.07
	-1.346	-5.79
Firm Leverage	0.0279**	0.119**
	-0.0127	-0.0567
Firm Total Assets UGX Billion	-1.32	-8.88
	-3.27	-1.43
Firm Revenue UGX Billion	2.53	4.48
	-9.91	-3.90
Number of employees	0.00246**	0.00869*
	-0.00117	-0.00468
Years in operation	0.0336*	0.131*
	-0.0176	-0.0704
No of Branches	-0.0322	-0.0214
	-0.0284	-0.116
Constant	2.873	-2.951
	-1.839	-7.876
Observations	92	92
Number of banks	23	23
R-squared	0.3798	0.5706

**Source: Primary data, 2018**

The model R-squared range between 0.38 and 0.57 implying that independent variables specified in the models significantly explain the variation of the dependent variables. That is to say the results show that the total variation in financial performance of commercial banks in Uganda is significantly explained by board composition and other control variables (firm leverage, total assets, total revenue, number of employees, years of operations of banks and number of branches of banks) specified in the model.

In relation to interpretation of results, the results in Table 3 show that, the three dimensions of board composition (size, independence and gender diversity), board size was negative and statistically significant in model 1 while in model 2 only board independence was positive and statistically significant. This implied that board size significantly reduces bank's return on assets such that for each member added on the board, the ROA reduces by 0.188 other factors being constant.

Nonetheless, the significant positive coefficient on board independence in model 2 shows that for any outside member added on the board, board independence will significantly increase return on equity of the banks by 0.09 units other factors being constant. There was no significant effect of gender diversity of board composition for both ROA and ROE model specifications. This would imply that among banks, gender composition of the board may not affect bank financial performance.

Qualitative interview findings demonstrated that although membership of the independent persons on the board is important, many times board members end up taking decisions in favor of majority shareholders because they are highly represented on the board than their counterparts (minority shareholders). For example, it was noted that there is bank with 10 members on the board with two shareholders with the majority shares (above 55%) but one of them also serves as an executive of the bank and at the same time sits on the board.

In such scenarios board's decisions may not be fully independent because of an element of board members having personal interest against the overall interests of all shareholders of maximizing

wealth. Further, the same respondent asserted that female members on boards are emotionally stable, rational and less hostile as compared to their male counterparts during meetings hence females are more prone to detecting fraud as well as not engaging themselves in acts of fraud. Therefore, the fact that few females are in most boards, this undermines their influence.

The other factors that were found to be significant in influencing ROA and ROE included firm leverage, number of employees and years that banks had been in operation. Their effects were positive as expected from empirical and theoretical prediction.

#### **4.5: Effect of audit committees and financial performance of commercial banks**

The results presented in Table 4 presents the regression results of the two models that were estimated to show the effect of audit committees on financial performance of commercial banks. The model 3 and 4 presents the effect of audit committee variables on ROA and ROE controlling for other factors that affect financial performance.

**Table 4: Random effects regression results for audit committees and financial performance of commercial banks**

VARIABLES	Model 3 FP_ROA	Model 4 FP_ROE
<b>Audit Committee Independence</b>	0.00325	-0.0234
	-0.0101	-0.0443
<b>Audit Committee Qualification</b>	-0.11	0.297
	-0.209	-0.917
<b>Audit Committee Diligence</b>	-0.0328	-0.414
	-0.246	-1.077
Firm leverage	0.0277**	0.111*
	-0.0132	-0.0576
Total Firm assets UGX Billion	-9.46	-8.78
	-3.36	-1.48
Firm revenue UGX Billion	0.0000	3.38
	-8.95	-3.98
Number of employees	0.00178*	0.00839*
	-0.00108	-0.00479
Years in operation	0.0280*	0.136*
	-0.0169	-0.0749
No of Branches	-0.0139	-0.00763
	-0.0264	-0.117
Constant	0.161	2.527
	-1.117	-4.906
Observations	92	92
Number of banks	23	23
R-squared	0.4193	0.5788

**Source: Primary data, 2018**

The model R-squared range between 0.42 and 0.58 implying that independent variables specified in the models significantly explain the variation of the dependent variables. That is to say the results show that the total variation in financial performance of commercial banks in Uganda is significantly explained by audit committees and other control variables (firm leverage, total assets, total revenue, number of employees, years of operations and number of branches of the bank) specified in the model.

This would imply that overall, the effect of audit committees whether independence, relevance in qualification and diligence do not statistically have a significant effect on financial performance of banks. This is perhaps because of the following reasons as was expressed by qualitative interviews with some board members of some banks.

It was noted during an interview with a top official of one bank who sit on the bank's board, who shared his opinion about the essence of an audit committee and said; number of meetings held by audit committee members are vital, however, the quality of decisions taken are the most useful, if not taken into action or implemented, there will not be any positive effect on financial performance irrespective of the number of meetings.

It is noted that that audit members may contribute but if their advice is not taken into account, their relevance may remain negligible. The respondent further explained that it's a requirement to have members on the committee who have financial expertise but at times, boards lack such qualified members who are outsiders and end up appointing executive members on the committee. This always has an effect during execution of their responsibilities, i.e. they find themselves reviewing internal audit reports and programs that were prepared during their supervision.

Additionally, in attempt to verify whether boards of directors are purely independent from banks' management, another respondent alluded that board members of large financial institutions have too many other commitments to be able to devote enough time to carrying out their board responsibilities, therefore, they end up relying on information generated from top managers of banks.

With the above revelations from the qualitative interviews, one is right to conclude that it is not surprising that the study did not find significant effect of audit committees on financial performance of banks. The other factors that were found to be significant in influencing ROA and ROE included firm leverage, number of employees and years of operation. Their effects were positive as expected from empirical and theoretical prediction.

#### **4.6: Effect of separation of ownership from control on financial performance of commercial banks**

The results presented in Table 5 presents the regression results of the two models that were used to show the effect of separation of ownership from control on financial performance of commercial banks.

**Table 5: Shows Random effects regression results for separation of ownership from control on the relationship between board composition and financial performance of commercial banks**

<b>VARIABLES</b>	<b>Model 5 FP ROA</b>	<b>Model 6 FP ROE</b>
Firm leverage	0.0180**	0.110**
	-0.0127	-0.0571
Firm total assets UGX Billion	-1.57	-8.56
	-3.27	-1.43
Firm revenue UGX Billion	3.20	4.64
	-9.9	-3.82
Number of employees	0.00152**	0.00788*
	-0.00129	-0.0057
Years in operation	0.0355**	0.130*
	-0.0177	-0.0682
No of Branches	-0.0359	-0.0256
	-0.0289	-0.116
<b>Separation of ownership (Owner- Controlled)</b>	-0.00177*	-0.00353
	-0.00103	-0.00442
<b>Separation of ownership (Manager-Controlled)</b>	3.25	0.000816*
Constant	2.511	-1.275
	-1.629	-6.729
Observations	92	92
Number of Banks	23	23
R-squared	0.3781	0.5697

**Source: Primary data, 2018**

Model 5 and 6 indicate the effect of separation of ownership from control on financial performance of commercial banks. The results show that variables of separation of ownership from control (owner-controlled and manager-controlled) significantly reduce ROA by 0.00177 and increase ROE by 0.000816 respectively. The firm leverage, number of employees and years of operation continued to significantly affect bank financial performance.

## CHAPTER FIVE

### SUMMARY, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents a discussion of findings of the study in relation to the objectives with a view to reaching at a comprehensive conclusion. Based on findings of the study, there are prospects that financial performance of commercial banks will be improved, hence an opportunity to persuade more investors, local individuals as well as institutions to invest in the banking sector since it's the backbone of the financial services sector.

#### 5.2: Summary of findings

The study established that there is a significant effect of corporate governance on financial performance of commercial banks in Uganda with R Square = 0.486. This implies that 48.6% variability in financial performance was explained by corporate governance whereas the remaining 51.4% can be explained by other factors such as; firm leverage, number of employees and years banks have been in operation. The test was based on three dimensions of corporate governance that is; board composition, audit committees and separation of ownership from control. Further, all the dimensions had a positive effect on financial performance.

#### 5.3: Effect of board composition on financial performance of commercial banks in Uganda

The study revealed significant effects of board composition on financial performance. The board independence measured by the percentage of outside members on the board was significant at p value less than 0.1, meaning that board composition in the study significantly explain variations

in financial performance (ROE). This further shows that as boards are composed of more outside members, this increases prospects of independence in both decisions and actions.

Nevertheless, board size was not significant with financial performance, implying that it's not the number of members that form the board that matter but the quality of the members on the board i.e. having multiple disciplines with multiple skills, this can foster the decisions taken as well as advisory on how they should be implemented this could affect how banks perform financially.

These findings are both in agreement and contrary with previous studies by various scholars who established positive and negative significances from similar studies; Miring'u & Muoria (2011), studied the relationship between financial performance, board composition and size, and found a positive relationship between Return on Equity and board compositions. The study took into account a sample of 30 out of 41 companies listed on Nairobi Securities Exchange.

Victor (2014), who explored the impact of board composition on financial performance of Financial Times Stock Exchange 100 Index constituents and found out that board independence and the amount of outside directors in the total number of directors (as characteristics of corporate board composition) had a significant strong positive impact on firm performance (both contemporaneous and subsequent).

Reddy et al (2010), examined the relationship between corporate governance practices and the financial performance. Panel data for the top 50 companies listed on New Zealand capital market over the period 1999-2007 were used and analyzed. The findings revealed a positive relationship between corporate governance practices and the financial performance.

Sandra et al (2014), examined the relationship between board independence and firm operating performance in a panel of French listed companies and found a significant negative relationship between accounting performance and the board independence.

Gamba et al (2018), examined the effect of board size, board composition and board meetings on the financial performance of listed consumer goods in Nigeria over a period of ten years from 2006 to 2015. The findings revealed that board size was negatively significant at 1% with t. value of 2.70. Further, the study established that smaller board size are good at enhancing ROA than larger board size.

#### **5.4: Effect of audit committees on financial performance of commercial banks in Uganda**

The audit committee independence, qualification and diligence are not strongly significant with financial performance of commercial banks. It connotes that when there is an increase in the percentage of outside members on the audit committee, this will not significantly improve ROA and ROE of commercial banks. This may be as a result of the fact that bigger audit committee suffer from diffusion of responsibility.

Further, highly qualified members on the audit committees who attend meetings at least once in every quarter, may not foster financial performance of commercial banks, in circumstances where meetings are held and quality decisions are not taken or implemented, irrespective of the number of meetings held.

These findings are consistent with the conclusions of previous studies by Mohamed & Aiman (2014), who examined the association between the audit committee effectiveness, audit quality and earnings management practices of more active 50 Egyptian companies listed on the Egyptian Stock Exchange of the non-financial sector during the period 2007- 2010. Found out that audit committees' independence, experience of audit committee members, audit committee meetings and audit quality have negative association with discretionary accruals as a proxy for earnings management. Similarly, no significant relationship was found out between audit committees' size and the level of discretionary accruals.

In the same vein, the conclusion is in agreement with the findings by Jean & Lucie (2004) who investigated whether the expertise, independence, and activities of a firm's audit committee have an effect on the quality of its publicly released financial information and findings revealed that aggressive earnings management was negatively associated with the financial and governance expertise of audit committee members.

Along similar lines, Foyeke et al (2014), explored the influence of audit committee effectiveness on firm's performance exhausting four characteristics: independence, financial expertise, size, and meetings of the audit committee. ROE, ROA and ROCE were the performance measures taken into account. The study took a sample of twenty-five (25) manufacturing firms from which data were collected for the period (2004-2011). The result of the analysis showed that size of audit committee had no significant relationship with all performance. Similarly, Garry et al (2004), found that the independence and activity level of the audit committee exhibited a significant and negative association with the occurrence of restatement. They further, documented a significant

negative association between an audit committee that includes at least one member with financial expertise and restatement.

However, these conclusions are contrary with the findings of previous studies with Thomas (2008); Dave (2013), who found out that institutions that had members on the audit committee with banking as well as financial reporting experience reported significantly more effective internal controls as compared to those institutions whose audit committee members lacked financial expertise.

#### **5.4: Effect of separation of ownership from control on financial performance of commercial banks in Uganda**

Separation of ownership from control that is; owner-controlled had a negative significance on ROA while manager- controlled had a positive significance on ROE. Nonetheless, it's not significant with ROA, implying that owners of commercial banks are highly interested at maximizing their returns from their equity other than the profits banks earn in relation to overall resources invested.

The results are in agreement with the conclusions reached upon by Jensen & Verde (2014), who studied the influence of board structure on the financial performance of companies listed on London Stock Exchange, and revealed that board ownership had a significant negative correlation with firm performance as measured by earnings per share.

Nevertheless, the results are contrary to earlier studies by different scholars who found positive relationships; Parker et al (2013), examined the effect among ownership, board composition and a firm's financial performance, findings found a significant positive relationship between board

composition, ownership and firm performance. Further, Carter et al (2012), examined and discussed the impact of corporate governance mechanisms on company performance in Turkey. The study analyzed a sample of 25 publicly listed companies on Turkish Stock Exchange making use of panel data for a time series of five years i.e. from 2008 to 2012. The study concluded that the corporate governance mechanisms i.e. corporate board, and ownership structures affect firm financial performance.

Amarjit et al (2013), studied the relationship between ownership structure and earnings quality in the French context with a sample of 117 French companies belonging to the SBF 250 index during the period of 2003-2011, the results showed that managerial ownership had a positive impact on the earnings management. Using a sample of 55 publicly listed companies on Tehran Stock Exchange, Meghan (2015), examined the effect board composition and ownership control on the financial performance those companies using panel data for five years from year 2007 to 2011, and found a negative significance between ownership control and financial performance.

Nonetheless, results are contrary with previous studies by Pickford & Kezra (2014), who found out that firms with shareholders who do not take part in executive duties, disclose significantly more operating and financial information in their annual report, this is so because these executives are highly specialized in their professions. Likewise, Stepanova (2014), examined the impact of ownership structure, separation of ownership and corporate financial performance, the study utilized panel data for a period of six years 2004- 2009 for a sample of 28 manufacturing firms in Singapore results showed that ownership structure significantly affected corporate financial performance.

## **5.6: Conclusions**

Variation in financial performance of commercial banks in Uganda was significantly explained by board composition and other control variables, board size was negative and statistically significant in model 1 while in model 2 only board independence was positive and statistically significant. Audit committees whether independence, relevance in qualification and diligence did not statistically have a significant effect on financial performance. Separation of ownership from control that is; owner-controlled had a negative significance on ROA while manager- controlled had a positive significance on ROE. This implies that owners of commercial banks are highly interested at maximizing their returns from their equity other than the profits banks earn in relation to overall resources invested.

## **5.7: Recommendations**

The findings revealed that board size had a negative effect on financial performance of commercial banks whereas board independence had a positive effect on financial performance. The findings proved that the more outside members on the boards of commercial banks, the better decisions are taken hence boosting financial performance. Therefore, the researcher recommends that corporate governance regulators to urge commercial banks to increase the number of outside board of directors.

Regulators should advise all commercial banks to get membership from the Institute of Corporate Governance of Uganda as this may guide on the best corporate governance practices to follow those set by Bank of Uganda. The current statistics indicate that not only banks but even other

companies and organizations have not fully embraced the benefits of getting membership with the Institute of Corporate Governance of Uganda.

It is observed that the shares controlled by the directors and managers in most especially banks which are listed on the USE are minimal. The level shares held by directors should be increased to reasonable amount as it makes them more aligned to their banks and prevent them from embarking on anything that is capable of jeopardizing their investment in such banks.

### **5.8 Suggestions for further research**

This study specifically focused on corporate governance in the context of commercial banks, however it did not look at the effect of corporate governance on the general performance of commercial banks. There is also need to find out the effect of other factors that affect financial performance, other than the corporate governance variables.

Therefore, further research should be carried out on those areas so as to obtain a comprehensive picture in the entire financial services sector including but not limited to; Microfinance Deposit-taking institutions, Credit Institutions, Insurance companies, Development Banks, Pension Funds and Capital Markets. Further, these studies should utilize panel data in order capture the effect of unobservable characteristics which are not time varying.

The study focused on commercial banks only. Nonetheless, according to Institute of Corporate Governance of Uganda, corporate governance is a recommendable practice to be adopted by all companies and organizations. Therefore, the study recommends further studies on other factors that may also affect financial performance in the financial services sector.

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## APPENDICES

### APPENDIX I: DOCUMENT CHECK LIST FOR A BANK

#### SECTION A: BACKGROUND INFORMATION FOR THE BANK:

**A1. Type/form of bank**

Foreign  Domestic

**A2. Number of years the bank has been in operation.**

**A3. Is the bank listed on Uganda Security Exchange?**

Yes  No

**A4. Number of branches of the bank.**

#### SECTION B: BOARD COMPOSITION

<b>B1: Size of the board</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Number of board members				
<b>B2: Board independence</b>				
Percentage of outside members on the board				
<b>B3: Gender diversity of board members</b>				
Ratio of females to males on the board				

#### SECTION C: AUDIT COMMITTEES

<b>C1: Audit Committee Independence</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Percentage of outside members on the AC				
<b>C2: Audit Committee Members' Qualification</b>				
Number of members on the AC with Accounting and Finance expertise				

<b>C3: Audit Committee diligence</b>				
Frequency of audit committee meeting				

**SECTION D: SEPARATION OF OWNERSHIP FROM CONTROL**

<b>D1: Owner- Controlled</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Percentage of investor shareholdings				
<b>D2: Manager- Controlled</b>				
Percentage of director shareholdings				

**SECTION E: FINANCIAL PERFORMANCE**

<b>E1: Return on Assets</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Average Return on Assets for each year				
<b>E2: Return on Equity</b>				
Average Return on Equity for each year				

**SECTION F: CONTROL VARIABLES**

<b>F1: Firm leverage</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total liabilities to total assets ratio				
<b>F2: Firm Size</b>				
Total assets				
Total revenue				
Number of employees				

## APPENDIX II: INTERVIEW GUIDE

Dear respondent,

This is an academic study investigating the effect of corporate governance on financial performance of commercial banks. The study is conducted by School of Management and Entrepreneurship, Kyambogo University. Your responses shall be kept confidential and used only for study purposes. Therefore, you are cordially requested to spare some time and share your response.

**An interview schedule for the interviews with top officials who have vast knowledge about corporate governance and financial performance of banks.**

1. What can you say about corporate governance in your bank?

*Probe areas:* Relationship among shareholders, BOD and committees, ranking in governance across the industry, governance mechanisms which are worthy benchmarking from other banks

2. Can you share with me about the bank's financial trend over the past few years?

*Probe areas:* Is it related to the financial expertise in the finance department, macro- factors, and Non- performing loans.

3. How is employee- management relationship in your bank?

*Probe areas:* Does it have any effect on financial performance, the audit committee's mode of operation, anything that would like to share with me.

**APPENDIX III: POPULATION AND SAMPLE OF THE STUDY**

<b>S/No</b>	<b>Name of the Bank</b>	<b>Eliminated</b>	<b>Reasons for elimination</b>
1	ABC Capital Bank Limited	NO	
2	Barclays Bank of Uganda Limited	NO	
3	Bank of Baroda	NO	
4	Bank of Africa Uganda Limited	NO	
5	Bank of India (Uganda) Limited	NO	
6	Cairo International Bank Limited	NO	
7	Commercial Bank of Africa (Uganda) Limited	NO	
8	Centenary Rural Development Bank Limited	NO	
9	Citibank Uganda Limited	NO	
10	DFCU Bank	NO	
11	Diamond Trust Bank Uganda Limited	NO	
12	Eco bank Uganda Limited	NO	
13	Equity Bank Uganda Limited	NO	
14	Exim Bank Uganda Limited	NO	
15	Finance Trust Bank Limited	NO	
16	Guaranty Trust Bank Uganda Limited	NO	
17	Housing Finance Bank Limited	NO	
18	KCB Bank Uganda Limited	NO	
19	NC Bank Uganda Limited	NO	
20	Orient Bank Limited	NO	
21	Stanbic Bank Uganda Limited	NO	
22	Standard Chartered Bank Uganda Limited	YES	Prepares Group Consolidated Financials and group reports. Banks reports are not accessible
23	Tropical Bank Limited	NO	
24	United Bank for Africa Uganda Limited	NO	

*Source: Primary data, 2018*

APPENDIX IV: DATA COLLECTED FROM ANNUAL REPORTS OF COMMERCIAL BANKS FOR PANEL OF FOUR YEARS (2014-2017)

ID BANK	Year	Form of Bank	Years in operation	USE Status	No of branches	BC Size	BC Indep	BC Gender Diversity	AC Indep	AC QualifIn	AC Deligence	SEP DC	SEP AC	FP RDA	FP MOE	CV PL	CV ASSETS '000'	CV REV '000'	CV No of Emp
1	2014	1	22	2	4	6	66.7	0.71	100	3	4	100	0	-0.919	-18.36	0.5	25,074,121	2,661,442	61
1	2015	1	23	2	4	7	71	0.71	100	3	4	100	0	1.632	3.99	0.41	28,461,031	3,441,234	61
1	2016	1	24	2	4	7	71	0.71	100	2	3	100	0	1.741	4.21	0.48	37,561,999	7,274,949	68
1	2017	1	25	2	4	7	71	0.71	100	2	3	100	0	1.421	3.21	0.38	38,045,523	7,180,181	72
2	2014	1	88	2	89	5	80	0.6	66.7	1	3	99.89	0.11	2.9	16.1	0.819	1,462,588,000	161,232,000	711
2	2015	1	89	2	89	5	80	0.6	66.7	2	4	99.89	0.11	2.9	15.1	0.809	1,627,192,000	197,237,000	784
2	2016	1	90	2	89	6	66.7	0.5	66.7	2	4	99.99	0.01	3.4	16.6	0.798	1,999,521,000	272,667,000	812
2	2017	1	91	2	91	6	66.7	0.5	66.7	1	3	99.99	0.01	4.1	14.6	0.807	2,127,253,000	304,466,000	850
3	2014	1	62	1	15	6	66.7	0.83	66.7	1	3	99.988	0.012	3.38	16.97	0.152	1,134,272,000	57,060,866	210
3	2015	1	63	1	15	6	66.7	0.83	66.7	1	3	99.988	0.012	3.41	17.21	0.154	1,292,959,382	74,258,000	232
3	2016	1	64	1	16	8	75	0.75	66.7	2	4	99.987	0.013	3.42	18.62	0.218	1,436,841,095	91,488,718	247
3	2017	1	65	1	16	8	75	0.75	66.7	2	4	99.987	0.013	3.24	19	0.0489	1,535,622,748	89,662,887	289
4	2014	1	31	2	32	7	85.7	0.875	75	3	4	100	0	1.82	13.88	0.888	497,620,000	497,620,000	349
4	2015	1	32	2	32	7	85.7	0.875	75	3	4	100	0	1.76	12.88	0.86	564,611,000	564,611,000	376
4	2016	1	33	2	33	8	75	0.875	66.7	2	3	100	0	0.682	0.615	0.666	599,824,100	634,567,100	389
4	2017	1	34	2	34	8	0.8	0.875	100	3	4	100	0	0.431	2.41	0.874	629,136,120	745,995,860	400
5	2014	1	3	2	1	5	50	0.75	50	1	4	100	0	2.1	10.1	0.792	81,813,913	3,834,550	42
5	2015	1	4	2	1	5	50	0.75	50	1	4	100	0	1.49	7.2	0.794	116,540,046	5,296,841	51
5	2016	1	5	2	2	3	33.3	1	50	1	3	100	0	1.06	4.12	0.74	156,001,309	1,466,855	58
5	2017	1	6	2	3	3	33.3	1	50	1	3	100	0	1.104	0.321	0.42	168,992,383	16,935,742	62
6	2014	1	20	2	6	6	85.7	0.83	100	2	4	100	0	-0.926	-2.91	0.664	90,651,712	14,633,995	132
6	2015	1	21	2	6	7	71.4	0.83	100	2	4	100	0	1.52	4.099	0.63	93,913,898	14,064,868	121
6	2016	1	22	2	8	8	75	0.8	75	1	3	100	0	0.701	0.466	0.637	96,966,094	15,292,682	143
6	2017	1	23	2	8	8	75	0.8	75	1	3	100	0	-1.74	-4.65	0.624	113,272,188	14,428,833	150
7	2014	1	1	2	1	6	66.7	0.625	33.3	2	4	100	0	0.727	87,444,335	2,700,338	10		
7	2015	1	2	2	1	7	71.4	0.833	33.3	2	4	100	0	-6.49	-14.38	0.734	89,586,128	8,644,371	17
7	2016	1	3	2	2	7	71.4	0.833	33.3	2	4	100	0	-8.53	-10.99	0.588	125,466,276	15,056,236	24
7	2017	1	4	2	2	7	71.4	0.833	33.3	2	4	100	0	-8	-15.51	0.483	148,328,222	20,409,758	37
8	2014	2	32	2	32	9	66.7	0.889	75	3	4	100	0	3.71	17.98	0.794	1,635,079,214	287,231,629	2646
8	2015	2	33	2	33	9	66.7	0.889	75	3	4	100	0	4.75	22.67	0.791	1,974,400,555	354,701,673	2153
8	2016	2	34	2	63	11	72.7	0.889	100	4	4	100	0	5.15	23.4	0.707	2,315,749,311	417,639,468	2384
8	2017	2	35	2	64	11	72.7	0.889	100	4	4	100	0	4.51	23.15	0.806	2,706,226,038	483,666,658	2503
9	2014	2	51	16	10	70	66.7	0.857	66.7	2	4	99.98	0.02	4.21	23.09	0.872	294,860,000	1,396,249,000	1167
9	2015	2	52	1	18	10	70	0.8	66.7	2	4	99.98	0.02	2.68	20.74	0.871	224,111,000	1,622,003,000	108
9	2016	2	53	1	21	9	78	0.889	66.7	2	4	99.985	0.015	2.28	19.31	0.882	257,133,000	1,727,141,000	211
9	2017	2	54	1	54	9	78	0.889	66.7	2	4	99.985	0.015	1.96	18.74	0.897	3,010,612,000	1,943,562,000	1623
10	2014	1	70	2	26	7	57	0.857	100	2	4	100	0	0.978	5.97	0.836	211,539,412	13,038,918	463
10	2015	1	71	2	27	7	57	0.857	100	2	4	100	0	1.503	10.76	0.86	271,606,597	15,927,331	487
10	2016	1	72	2	30	8	71.4	0.857	75	3	4	100	0	1.499	15.648	0.9	1,436,657,909	181,385,947	512
10	2017	1	73	2	33	8	71.4	0.857	75	3	4	100	0	1.321	12.841	0.964	1,540,788,911	172,221,682	581
11	2014	2	31	28	10	28	80	0.8	75	4	4	100	0	0.77	6.208	0.77	121,810,282	18,493,908	547
11	2015	2	32	2	30	12	75	0.5	75	2	4	100	0	0.618	2.908	0.732	151,051,019	21,062,356	610
11	2016	2	33	2	32	14	85.6	0.25	75	2	4	100	0	1.332	5.8	0.787	166,211,662	51,779,806	634
11	2017	2	34	2	16	14	85.6	0.25	75	2	4	100	0	1.593	5.94	0.789	178,782,327	55,314,435	679
12	2014	2	48	2	48	11	63.6	0.727	50	1	3	100	0	1.461	7.241	0.824	131,836,578	14,234,678	206
12	2015	2	49	2	49	11	63.6	0.727	50	2	4	100	0	1.331	7.012	0.832	134,769,456	18,745,367	207
12	2016	2	50	2	19	13	71.4	0.652	75	3	4	100	0	1.461	6.241	0.83	145,233,476	32,456,893	313
12	2017	2	51	2	20	13	71.4	0.652	75	4	4	100	0	1.524	8.098	0.822	152,438,956	36,789,453	345
13	2014	2	3	2	1	11	63.6	0.812	75	3	4	100	0	0.689	2.922	0.624	156,834,308	14,634,866	33
13	2015	2	4	2	1	11	63.6	0.812	75	3	4	100	0	0.621	2.801	0.721	202,201,730	21,567,788	39
13	2016	2	5	2	2	11	63.6	0.812	75	3	4	100	0	0.537	2.623	0.793	284,767,400	30,567,094	48
13	2017	2	6	2	3	13	76.9	0.613	75	4	4	100	0	0.828	2.213	0.807	367,212,456	41,234,578	42
14	2014	1	22	2	17	9	50	0.8	100	2	4	46.5	53.5	0.708	4.26	0.834	480,861,353	19,262,079	154
14	2015	1	23	2	19	9	50	0.8	100	2	4	46.5	53.5	1.009	5.69	0.803	523,366,401	32,611,748	177
14	2016	1	24	2	21	10	55.6	0.889	66.7	2	3	46.5	53.5	0.689	3.231	0.798	554,216,624	56,576,936	167
14	2017	1	25	2	21	10	55.6	0.889	66.7	3	4	46.5	53.5	0.946	4.621	0.762	600,037,254	58,716,859	204
15	2014	1	109	2	81	10	80	0.7	100	3	4	99.79	0.21	4	25.3	0.839	5,404,159,000	636,064,007	1777
15	2015	1	110	2	85	10	80	0.7	100	3	4	99.79	0.21	4.6	30.3	0.843	4,989,610,000	643,486,628	1789
15	2016	1	111	2	89	9	80	0.7	100	3	4	99.82	0.184	4.2	29.2	0.854	3,225,141,000	628,011,624	1802
15	2017	1	112	2	93	9	80	0.7	100	3	4	99.83	0.17	4	30.3	0.861	3,507,762,000	611,641,234	1810
16	2014	1	42	2	8	8	62.5	1	100	1	4	100	0	2.872	4.386	0.778	241,659,918	35,166,183	132
16	2015	1	43	2	9	8	62.5	1	100	1	3	100	0	2.361	4.364	0.771	256,768,254	37,729,007	143
16	2016	1	44	2	12	7	71.4	1	100	1	3	100	0	0.744	3.34	0.768	265,776,611	36,241,341	151
16	2017	1	45	2	13	7	71.4	1	100	1	4	100	0	1.792	1.79	0.752	279,614,844	39,401,661	176
17	2014	1	8	1	7	8	75	0.9	70	3	4	98.28	1.22	1.18	9.794	0.859	645,025,685	11,246,736	403
17	2015	1	9	1	7	8	75	0.9	70	3	4	98.28	1.22	0.758	6.131	0.876	684,719,396	15,678,436	420
17	2016	1	10	1	10	10	70	0.9	70	3	4	98.9	1.1	0.524	1.211	0.712	715,229,456	23,550,808	432
17	2017	1	11	1	11	10	70	0.9	70	3	4	99.9	0.1	0.501	4.124	0.701	743,756,287	28,935,783	467
18	2014	1	7	2	4	6	83.3	0.833	70	1	4	100	0	-0.712	-3.26	0.0395	83,627,901	3,555,478	63
18	2015	1	8	2	6	6	83.3	0.833	60	1	4	100	0	-0.186	-3.65	0.568	97,452,8		

  
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**Office of the Dean, Graduate School**

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19<sup>th</sup> October 2018

**To Whom It May Concern**

**RE: LETTER OF INTRODUCTION**

Dear Sir/Madam,

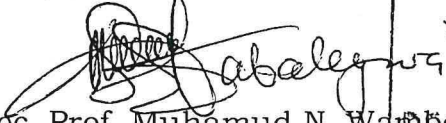
This is to introduce **Mr. Emmanuel Ssemugenyi** Registration Number **16/U/13338/GMBA/PE** who is a student of Kyambogo University pursuing a Masters Degree.

He intends to carry out research on **“Corporate Governance and Financial Performance in the Banking Sector: A study of Commercial Banks in Uganda”** as partial fulfillment of the requirements for the award of the Masters in Business Administration.

We therefore kindly request you to grant him permission to carry out this study in your institution.

Any assistance accorded to him will be highly appreciated.

Yours sincerely,

  
Assoc. Prof. Muhamud N. Wambua  
**DEAN, GRADUATE SCHOOL**

