CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF HOUSING FINANCE BANK

BY

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REG. NO: 11/MMSPPM/26/056

A DISSERTATION SUBMITTED TO THE HIGHER DEGREES DEPARTMENT IN FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS DEGREE IN MANAGEMENT STUDIES (PROJECT PLANNING AND MANAGEMENT) OF UGANDA MANAGEMENT INSTITUTE

JANUARY, 2014

DECLARATION

I, PHIONAH ABAASA, declare that I am the sole author of this dissertation, that during the period of registered study, I have not been registered for other academic award or qualification, nor has any of the material been submitted wholly or partly for any other award. This dissertation is a result of my own research work, and where other people's research was used, they have been dully acknowledged.

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

APPROVAL

This work has been supervised and approved by

DR. BENON BASHEKA

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MRS. PROSS NAGITTA OLUKA

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DEDICATION

I dedicate this work to my beloved Parents Mr Rwamahe Francis Kyatuka (deceased), Mrs Joy Kemirembe Rwamahe and my dear sisters and brothers, especially Mrs Hilary Matsiko and your husband Mr Ezra Matsiko.

ACKNOWLEDGEMENT

This dissertation is not borne of my ideas alone, but because of so many people that have given their time, guidance, and ideas. I wish to acknowledge in a special way all those persons that in one way or the other that assisted me in my quest to finish this study. Special appreciation goes to my supervisors Dr Benon Basheka and Mrs Prossy Nagitta Oluka for their personal commitment in reading all my drafts, responding on time and your constant guidance that has helped me finish this work. I also appreciate the efforts of my other lecturers and non-teaching staff that have guided me and moulded me during my time at Uganda Management Institute.

I cannot forget without any reservations all my respondents for the support and cooperation extended to me in answering the questionnaires and time given to be interviewed I can only say thank you. I wish to express my sincere gratitude to my friends and fellow students Ritah Mugisha, Carolyn Kanagwa, Emmanuel Benedict Muwawu and Carolyn Bagonza for encouraging me, brainstorming together, moral support offered. Many thanks go to my direct supervisors and colleagues at work Ms Harriet Kayanga Mwesigwa for giving me time off to attend classes and my colleagues who sat in for me while I was away studying. I cannot mention each and every one for the contribution large or small you had on my writing this research, this is my sincere appreciation to you all may the lord reward you richly.

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ACRONYMS

BOU: BANK OF UGANDA

CEO: CHIEF EXCUTIVE OFFICER

CMA: CAPITAL MARKETS AUTHORITY

CVI: CONTENT VALIDITY INDEX

HFB: HOUSING FINANCE BANK

ICB: INTERNATIONAL CREDIT BANK

NBC: NATIONAL BANK OF COMMERCE

OECD: ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT PRINCIPLES

SPSS: STATISTICAL PACKAGE FOR SOCIAL SCIENTIST

UCB: UGANDA COMMERCIAL BANK

UK: UNITED KINGDOM

UMI: UGANDA MANAGEMENT INSTITUTE

USA: UNITED STATES OF AMERICA

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF HOUSING FINANCE BANK

Abstract

The study was carried out to establish the relationship between corporate governance and financial performance of commercial banks in Uganda, with Housing finance bank as a case study. The study was cross-sectional combined with analytical survey design as well as descriptive methods to interpret the findings. Besides, both qualitative and quantitative methods were also adopted. A total sample of 59 staff of Housing finance bank were selected. Both census and simple random sampling methods were used to select the respondents for the study because of their involvement in corporate governance issues within the bank. Semi-structured self administered questionnaires and interview guide were employed to collect data. The regression result showed that about 36% of the variations in financial performance of Housing finance bank is explained by corporate governance comprising of board size, board composition, CEO reputation, and ownership structures. Thus, the study therefore recommends that Housing finance bank put in place better governance mechanism, in particular a board, board composition, and a reputable CEO to direct and control its business operations. This will improve procedures, systems, and processes for accountability which is a key factor in corporate governance and superior management that will be responsible for the most important decisions making processes for efficient corporate performance.

CHAPTER ONE
INTRODUCTION

1.0 Introduction

The chapter gives an overview of how corporate governance can impact on financial performance of commercial banks in Uganda. In this study, corporate governance is an independent variable, while financial performance is a dependent variable. This chapter presents the historical, theoretical, conceptual, and contextual background, and a statement of the problem, aim of the study in achieving the objectives, research questions, hypothesis, significance, the scope of the study, justification and operational definitions of the terms and concepts, all in relations to the study variables mentioned above.

1.1 Background to the Study

1.1.1 Historical Background

There is no definitive historical treatment of corporate governance and there may never be one, given the vastness of the subject. Corporate governance has been around since the use of corporate form created a possibility of conflict between the investor and the managers (Wells, 2010:1251). The history of corporate governance dates back to at least as far as the formation of East Indian company, the Hudson Bay Company, the Levant company and other major chartered companies of the 16th and 17th century. Addressing all relevant issues on corporate governance in a systematic way is quite daunting task (Morck, 2005). Corporate governance became vogue in the 1970's in the USA. Within the following 25 years after its first appearance it became a subject of debate worldwide by academics, regulators, executives and investors. In the after math of World War II the US experienced boom in the Economic sector and corporations grew rapidly, this growth came with prosperity but internal governance of companies was not high on the agenda (Cheffins, 2009:6). However as the 20th century drew close, corporate governance had “become centre stage”. With the 2000”s underway perceptions changed dramatically. A sharp stock market decline precipitated by the global recession which forced some US giant companies to foreclose and the demise of the “dot Com” era driven by scandals that rocked major public companies such as Enron, WorldCom discredited corporate governance domestically in the US and brought the practitioners, regulators and investors back to the drawing board (Cheffins, 2000). Regardless of the setbacks in the financial market the construct of corporate governance is well ensconced in the running of public and private listed companies and a subject of intense study in the field due to financial accounting scandals that rocked the world in recent past, improved corporate governance practices have become critical worldwide. Efforts to protect investors and stabilize global capital markets has seen the introduction of stringent governance reforms such as the Organization for Economic Cooperation and Development principles (OECD) first issued in 1999, the Sarbanes-Oxley Act 2002 and “Modernizing Company law and enhancing corporate governance in European Union- A plan to move forward by European commission on 21st March 2003.

In developing nations, reforms are aimed at promoting development and economic globalization. In context, corporate governance reforms in combination with liberalizing reforms in effect represent a new development strategy for the third world nations. There are many styles of corporate governance including the US, the European, Asian style, market based, stakeholder based and other state leaning systems. Despite the different types of corporate governance styles preferred, there is a convergence in the importance of transparency, integrity and accountability (Cheffins, 2009). The work by Berle and Means (1932) enjoyed huge acceptance and provided substantial insight into the interactions within organizations. They suggested that there is a separation between the owners of businesses and their management and that this separation requires that there should be a formal contract and bond between the two parties. Their explanations further suggested that this separation is in part due to the expansion in corporations‟ size and, as businesses become bigger, owners are less likely to be involved in the day to day running of the organization". Their observations should have drawn attention to the issues of governance in organizations, but it was left to the works of Coarse (1936), Jensen and Meckling (1976) and Fama (1980) on the possibility of conflicts of interest between the shareholders and management representing the Principals and the Agents respectively that launched discussions on Corporate Governance. Even then the term was not used in analysis as such. It was not until 1983 that it featured as the title of a paper in Perspectives on Management (Earl, 1983).

Despite the recent fluent and widespread use of the term it has no generally accepted definition (Razaee, 2009), due, perhaps, to the fact that the term cuts across multiple disciplines. It is widely used both professionally and in academic sense. The recent growing interest on corporate governance issues, we are in fact witness to the re-emergence of traditional issues in industrial organizations. This can be evidenced through that of Berle and Means (1932) approaches (Berle et al.., 1932) based on Alfred Marshall's work on the relationship of shareholders and managers (Marshall, 1922). Even Adam Smith adduced that the relationship of stakeholders and managers is full of dissociation and thus he stated; "The directors of companies, being managers of other people's money than their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which partners in a private company frequently watch over their own" (Smith, 1877: p.267). In Uganda, various efforts to enhance corporate governance have been made by many organizations including Bank of Uganda, The Institute of Corporate

Governance of Uganda, and the Capital Markets Authority (CMA). The CMA developed guidelines in February of 2003 as a minimum standard for good corporate governance practices by public companies and issuers of corporate debt in Uganda (CMA, 2003). Corporate governance is about accountability, transparency, and ethical conduct. International standards and guidelines on corporate governance have been established by multilateral organizations such as Organization for economic cooperation and development (OECD) and the Basel committee on Banking in effort to improve institutional and regulatory framework for enhancing corporate governance in institutions such as banks and other financial markets (Kibirango, 2002).

1.1.2 Theoretical Background

This study is premised on the agency and stakeholder theories. The agency theory focused on problems relating to separation of ownership and control. Proponents of the principal agency theory Jensen and Meckling (1976) asserts that; the theory involves a contract between agent (director) who knows more about the entity/corporation and the Principle (shareholder) it is assumed that the agent will not always have the interests of the shareholder at heart. The agency theory presumes, opportunism on the part of the agent and enforced compliance are not nationally bounded, but instead represent a supranational lens for evaluating corporate governance issues Lubatkin (2005:pp. 867-888). Today well known agency problems resulting from separation of ownership from management still prevail in firms worldwide. Recent research suggests that firms tend to have poor performance when they have greater agency problems. An efficient governance structure is believed to be one of the most important means by which agency problems may be alleviated. The elements of corporate governance addressed in literature include ownership structure, the board of directors' composition board size and sometimes CEO reputation. The composition of boards of directors varies according to differences in ownership structure Eldenburg et al., (2004), the composition of the board is what determines the level of monitoring the CEO (Weisbach, 1987) and the size of the board is inversely related to company value as companies with large boards tend to use their assets less efficiently and earn less profit (Yermack, 1996).

Although Agency theory addresses manager principle interest divergence additional theories are needed to explain what if anything causes the interests of principle agent to be aligned. The stewardship theory has been touted as a means to defining relationships based upon behavioural premises (Donaldson & Davis, 1989; 1991). The stewardship theory situations in which managers are not motivated by individual goals but rather are stewards whose motives are aligned with objectives of their principles. From the legal perspective the exponents of this theory say directors need to recognize the interests of customers, employees, suppliers and other legitimate shareholders but under the law their first responsibility is to shareholders.

Besides, the stakeholder theory on the other hand, has been advanced for its descriptive accuracy, instrumental power and normative validity. Although these constructs are inter related they are distinct. “If the unity of the corporate body is real then there is reality and not simply legal fiction in the proposition that the managers of the unit are fiduciaries for it and not merely for its individual members that they are… trustees for an institution (with multiple constituents) rather than attorney for the stockholders” (Dodd,1932). One group of scholars view the stakeholder theory as a potential foundation for growth of social science based research and another views it as an umbrella term describing a class narrative accounts, each based on its own moral principles. The proponents of this theory however argue that managers should make decisions so as to take into account the interests of stakeholders. The rationale behind is to create a maximum value maximization- a major object of governance of firms.

Conclusively, running of companies is a dynamic task and each theory advanced has a contribution it makes in corporate governance but what comes out strongly is the recognition that in business there is a relationship between managers and business owners, it is for that case that this research will focus on the principle agent theory. Under such hypotheses, adequate governance structures are required for allowing owners to monitor and control managers Jensen and Meckling (1976), Berle and Means (1932/1991); Shleifer & Vishny (1997). The point of reference in this model of corporate governance is the market. However at present the Agency Theory dominates the theoretical discussions on corporate governance but does not quite cover all aspects. In contrast the stewardship theory presumes that managers are inherently good stewards of corporations and can be trusted to work diligently to attain high levels of corporate profits and shareholder return. Ironically this presumption leads to ultimate conclusion that boards of directors are redundant and that stakeholder advisory boards are sufficient.

1.1.3 Conceptual Background

Corporate governance denotes an entire range of mechanisms and arrangements that determine the way key decisions are made in corporations including policies and practices that shareholders and board of directors use to manage themselves and fulfil responsibilities to investors. Fundamentally corporate governance is about accountability, decision making and conformance with applicable laws. Different definitions have been advanced but there seem to be no one singular definition to corporate governance justice simply because it is applicable in many disciplines from law, to humanities and behavioural science. These are some of the definitions or understanding of what the corporate governance is about (La Porta et al, 2000). Corporate governance is a multi-dimensional construct comprised of company leadership, board size and composition, company brand principles, balance of power, disclosure and compliance with the laws and the best practices Larker and Richardson (2005). Corporate governance's purpose is to direct, control the activities of the firm by putting in place structures, procedures and rules for decision making. However the most contentious issues of corporate governance revolve around answering questions; "on whose behalf? And to what end?" The corporate directors have a fiduciary duty to be loyal to the best interests of the corporation (Black, 1999).

Corporate governance is a system by which business corporations are directed and controlled. It is the structure that specifies the distribution of rights and responsibilities among different participants in the corporation, such as Board, Managers, Shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs, and in so doing, provides the structures through which the company objectives are set, attained and performance monitored (OECD, 2009). Corporate governance structure therefore provides the framework through which company objectives are set and achieved and ensures that accurate and timely disclosure is made on financial performance of a company (OECD, 2005). Firms need managers to help them reach their objectives. Competent managers help them reach these objectives efficiently and effectively.

According to Enders (2004), differences in financial performance of firms are the outcome of good corporate governance and superior management. A firm's management team is responsible for the most important decisions of corporate performance. Financial decisions have a great influence on firm performance (Jensen, 2000; Wruck, 2001). Penrose (2007) asserts that a firm may achieve rents not because it has better resources but rather because it makes better use of its resources. Good corporate governance creates value added (through entrepreneurism, innovation, development and exploration) and provides accountability and control systems commensurate with the risks involved. Financial performance is the measure of the extent to which objectives of an organization are achieved in relation to defined standards and targets for each objective (Monaghan, 2000; Dess and Shaw, 2001). It involves outcomes in the firm's earnings, capital adequacy, assets quality and liquidity available for operation of the firm. Gompers et al., (2003) find that firms with strong shareholder rights have superior valuation, better profits, and better sales growth. Furthermore, productivity, disclosure and sustainability which constitute an integral part of corporate governance, can provide pressure for improved financial performance Laporta et al, (1998), Shleifer & Vishny (1997). It is against this backdrop that this research will examine the elements of corporate governance such as; board size, board composition, ownership structure and CEO reputation.

1.1.4 Contextual Background

The erosion of investor confidence following widespread global corporate failures has resulted in increased focus on corporate governance and financial performance of companies. OECD (2005) observed that the recent financial scandals in the United States involving such companies as Enron and WorldCom was greatly a result of failure of shareholders to adequately control managers and as a result, the managers enriched themselves at the expense of the owners whose interest they were supposed to protect.

The importance of promoting corporate governance is primarily founded on the need to equip business executives with the knowledge and skills required to fulfil their leadership responsibilities in order to contribute to Uganda economic growth. The experiences with bank failures, together with other corporate crises, have in many cases been associated with governance. Corporate governance issues are also partly to blame for the relatively short lifespan of many businesses in Uganda. In addition, many private sector firms are family businesses, with appointees to the boards being handpicked or arbitrarily chosen, little consideration being given to their competence, integrity and technical ability to guide the enterprise. The end result has been many a board member having limited understanding of their responsibilities and of related implications for the investment portfolios entrusted to them as evidenced in the international credit bank (ICB) run by the Katto family. Besides, the other existing cases were the ones of Co-operative bank and National bank of commerce.

Despite the financial crises commercial banks in Uganda have been posting good performance for the latter part of 2000s. Housing finance bank was founded in 1967 and was majorly dealing in mortgage lending and still commands 80% of mortgage lending. Housing finance bank is owned by National Social Security fund with 50%, government of Uganda owns 45% and the remaining 5% is owned by National Housing and Construction Company. In 2008, it fully acquired a commercial banking license from bank of Uganda the country's regulator. Although housing finance bank has been financially performing well from its inception, existing data indicate that there have been discrepancies in its financial performance during the different years between 2008 and 2012 (Housing Finance Bank Annual Report, 2012). This is shown in table 1 below.

Table 1: Showing Financial Performance Forecast of Housing Finance Bank

Year	Target Performance (UGX, 000)	Actual Performance (UGX, 000)	Variance (%) (UGX, 000)
2012	464,100,000	355,800,000	(108,300,000)
2011	200,000,000	145,000,000	(55,000,000)
2010	185,000,000	162,000,000	(23,000,000)
2009	102,000,000	105,000,000	3,000,000
2008	91,000,000	95,000,000	4,000,000

Source: *Housing Finance Bank Financial Reports for the Period 2008 to 2012*

From table 1 above, there was variance in financial performance of Housing finance bank between the years 2008 to 2012. The table indicate that between 2008 and 2009, there was positive financial performance as shown by the variances; however, in the year 2010, 2011, and 2012, there were negative financial performance as shown by the variances in the table above. This justifies the discrepancies in the financial performance of Housing finance bank over the period from 2008 to 2012.

1.2 Statement of the Problem

The commercial banking sector has been dogged by multiple corporate governance malfeasance that led to the closure of several banks in the recent past. Greenland bank, international credit bank (ICB) run by the Kato family, and National Chamber of Commerce all had problems with governance and flaunting business ethics. However the banking sector since the late 2000's has seen a spur in financial growth with an influx of foreign owned banks entering the market this has contributed to improvement in customer service and increased competition.

Although Housing finance bank has experienced growth in its operations in the previous years since its inception in 1967, existing data shows that it has been experiencing discrepancies in its financial performance over these years. Issues relating to transparent control, responsible corporate boards, shareholder rights, accountability, and timely disclosure of useful information are still inefficient. Besides, Housing finance bank still faces ineffective corporate governance structures which have led to decline in achieving its annual financial performance targets with its profitability ratio falling from 50% to 20% in the period from 2008 to 2012 (Housing Finance Bank Annual Financial Report, 2012). Therefore, this study intends to investigate whether corporate governance in place is the major cause of discrepancies in the existing financial performance trends exhibited by Housing finance bank.

1.3 Purpose of the Study

The study aimed at examining the relationship between corporate governance and financial performance of commercial banks in Uganda.

1.4 Objectives of the Study

i) To examine the relationship between board size and financial performance of Housing finance bank;

ii) To examine the relationship between board composition and financial performance of Housing finance bank;

iii) To examine the relationship between CEO reputation and financial performance of Housing finance bank;

iv) To examine the relationship between ownership structure and financial performance of Housing finance bank.

1.5 Research Questions

i) What is the relationship between board size and financial performance of Housing finance bank?

ii) What is the relationship between board composition and financial performance of Housing finance bank?

iii) What is the relationship between CEO reputation and financial performance of Housing finance bank?

iv) What is the relationship between ownership structure and financial performance of Housing finance bank?

1.6 Hypotheses

H1: Board size a significant positive relationship with financial performance of commercial banks;

H2: Board composition has a positive relationship with financial performance of commercial
Banks;

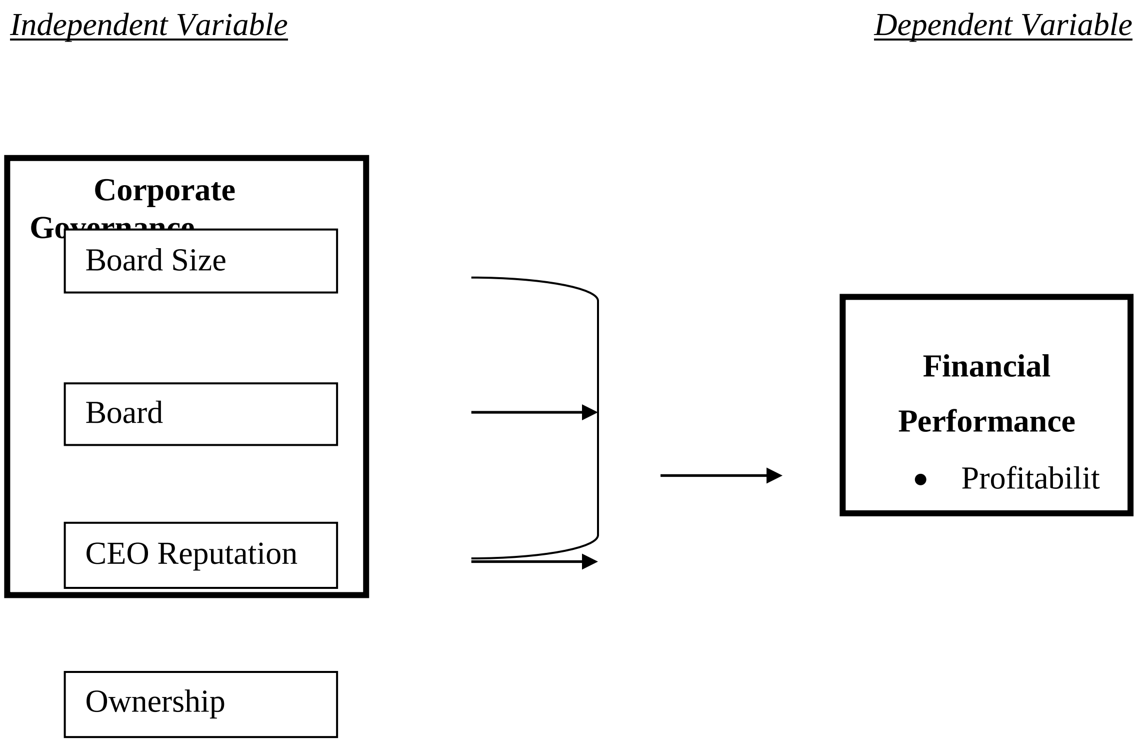
H3: CEO reputation has a positive relationship with financial performance of commercial banks;

H4: Ownership structure has a significant positive relationship with financial performance of commercial banks.

1.7 Conceptual Framework

The conceptual model in figure 1 below, examines the relationship between corporate governance and financial performance of commercial banks. The independent variable was corporate governance and the dependent variable was financial performance. The framework explains how a corporate governance structure of board size, board composition, CEO reputation, and ownership structure affects financial performance in form of profitability, capital adequacy, and asset quality. A good corporate governance framework ensures the Board's accountability to diverse stakeholders, and promotes transparency (OECD, 2005). Corporate governance is concerned with ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders. Such measures are necessitated by the separation of ownership from management, an increasingly vital feature of the modern firm (Yermack, 1996). A typical firm is characterized by numerous owners having no management function, and managers with no equity interest in the firm. Shareholders, or owners of equity, are generally large in number, and an average shareholder controls a minute proportion of the shares of the firm. This gives rise to the tendency for such a shareholder to take no interest in the monitoring of managers, who, if left to themselves, may pursue interests different from those of the owners of equity. For example, the managers might take steps to increase the size of the firm and, often, their pay, although that may not necessarily raise the firm's profit, the major concern of the shareholder (Sanda *et al.,* 2005). Fama (1980) also asserts that a firm can be viewed as a team, whose members realize that in order for the team to survive, they must compete with other teams, and that the productivity of each member has a direct effect on the team and its members. Thus, within the firm, each manager has the incentive to monitor the behaviour of other managers, whether subordinates or superiors.

Fig. 1: Conceptual Model



Source*: Adopted from Corporate governance in the 2007/2008 Financial Crisis (Journal of Corporate Finance 2009) and Modified by the Researcher*.

1.8 Significance of the Study

i) The study may add more knowledge to the already existing literature on corporate governance and financial performance of commercial banks;

ii) The study findings may also enhance further research on the impact of corporate governance on financial performance of commercial banks locally and internationally;

iii) The study may lead to the identification of better corporate governance strategies, which are critical for improved financial performance of commercial banks;

iv) The commercial bank used in the study may benefit from this research by improving on its corporate governance structures that may enhance financial performance.

1.9 Justification of the Study

The issue of corporate governance is now common place and has featured regularly in discourses both in the print and electronic media. Considerable academic attentions have also been rightly focused on various aspects of the issue including for instance, executive compensation (Harvey and Shrives, 2001), regulation (Keenan, 2004), corporate control (La Porta et al, 2000) Institutional ownership (Mitra et al, 2007), among others. Numerous corporate scandals of the late 20th and early 21st centuries such as BCCI, Polypeck, ENRON Lehman Brothers etc have played significant part in the spotlight enjoyed by the topic and it seems that there are many more questions emerging than answers for the known lapses in the control systems that may have facilitated these corporate misbehaviours. Most of these lapses have been cited in the European and US markets. The study sought to find out if these lessons of corporate collapses have been a turning point for African markets especially the Uganda Commercial Banking sector.

1.10 Scope of the Study

1.10.1 Content Scope

Corporate governance is concerned with ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders. Such measures are necessitated by the separation of ownership from management, an increasingly vital feature of the modern firm (Yermack, 1996). Thus, the study content consisted of corporate governance and financial performance of Housing Finance Bank.

1.10.2 Geographical Scope

The study was carried out at the head office of Housing Finance Bank limited situated at plot 4, Wampewo Avenue, Kololo Kampala district.

1.10.3 Time Scope

The study covered the period from 2008 to 2012 because that is when Housing finance bank joined the commercial banking services having been solely a mortgage lender prior to 2008.

1.11 Operational Definitions of Terms and Concepts

- **Corporate Governance:** It is a system by which business corporations are directed and controlled. It is the structure that specifies the distribution of rights and responsibilities among different participants in the corporation, such as Board, Managers, Shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs, and in so doing, provides the structures through which the company objectives are set, attained and performance monitored (OECD, 2009).
- **Financial Performance:** It is the measure of the extent to which objectives of an organization are achieved in relation to defined standards and targets for each objective (Monaghan, 2000; Dess and Shaw, 2001).
- **Agency Theory:** A supposition that explains the relationship between principals and agents in business.
- **Stakeholder Theory:** Is a theory of organizational management and business ethics that addresses morals and values in managing an organization.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The literature reviewed in this chapter is based on the relationship between corporate governance and financial performance of commercial banks in Uganda. It involved analysing board size, board composition, CEO reputation, and ownership structure and their impact on financial performance. It is mainly based on literature reviewed in developed countries. The review of the literature will examine practical and empirical evidence on the relationship between corporate governance and financial performance in relation to the Uganda situation.

2.1 Theoretical Review

This study is premised on the agency and stakeholder theories. The agency theory focused on problems relating to separation of ownership and control. Proponents of the principal agency theory Jensen and Meckling (1976) asserts that; the theory involves a contract between agent (director) who knows more about the entity/corporation and the Principle (shareholder) it is assumed that the agent will not always have the interests of the shareholder at heart. The agency theory presumes, opportunism on the part of the agent and enforced compliance are not nationally bounded, but instead represent a supranational lens for evaluating corporate governance issues Lubatkin (2005:pp. 867-888). Today well known agency problems resulting from separation of ownership from management still prevail in firms worldwide. Recent research suggests that firms tend to have poor performance when they have greater agency problems. An efficient governance structure is believed to be one of the most important means by which agency problems may be alleviated. The elements of corporate governance addressed in literature include ownership structure, the board of directors' composition board size and sometimes CEO reputation. The composition of boards of directors varies according to differences in ownership structure Eldenburg et al., (2004), the composition of the board is what determines the level of monitoring the CEO (Weisbach, 1987) and the size of the board is inversely related to company value as companies with large boards tend to use their assets less efficiently and earn less profit (Yermack, 1996).

Although Agency theory addresses manager principle interest divergence additional theories are needed to explain what if anything causes the interests of principle agent to be aligned. The stewardship theory has been touted as a means to defining relationships based upon behavioural premises (Donaldson & Davis, 1989; 1991). The stewardship theory situations in which managers are not motivated by individual goals but rather are stewards whose motives are aligned with objectives of their principles. From the legal perspective the exponents of this theory say directors need to recognize the interests of customers, employees, suppliers and other legitimate shareholders but under the law their first responsibility is to shareholders.

Besides, the stakeholder theory on the other hand, has been advanced for its descriptive accuracy, instrumental power and normative validity. Although these constructs are inter related they are distinct. “If the unity of the corporate body is real then there is reality and not simply legal fiction in the proposition that the managers of the unit are fiduciaries for it and not merely for its individual members that they are… trustees for an institution (with multiple constituents) rather than attorney for the stockholders” (Dodd,1932). One group of scholars view the stakeholder theory as a potential foundation for growth of social science based research and another views it as an umbrella term describing a class narrative accounts, each based on its own moral principles. The proponents of this theory however argue that managers should make decisions so as to take into account the interests of stakeholders. The rationale behind is to create a maximum value maximization- a major object of governance of firms.

Conclusively, running of companies is a dynamic task and each theory advanced has a contribution it makes in corporate governance but what comes out strongly is the recognition that in business there is a relationship between managers and business owners, it is for that case that this research will focus on the principle agent theory. Under such hypotheses, adequate governance structures are required for allowing owners to monitor and control managers Jensen and Meckling (1976), Berle and Means (1932/1991); Shleifer & Vishny (1997). The point of reference in this model of corporate governance is the market. However at present the Agency Theory dominates the theoretical discussions on corporate governance but does not quite cover all aspects. In contrast the stewardship theory presumes that managers are inherently good stewards of corporations and can be trusted to work diligently to attain high levels of corporate profits and shareholder return. Ironically this presumption leads to ultimate conclusion that boards of directors are redundant and that stakeholder advisory boards are sufficient.

2.2 Corporate Governance and Financial Performance

Barry (2003) views corporate governance as the system by which organizations are directed and managed. He states that corporate governance influences how the objectives of a firm are set and achieved, how risk is monitored and assessed, and how performance is optimized. Good corporate creates value added (through entrepreneurism, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved. The key factors in corporate governance are direction, leadership and accountability, combined with systems and processes. Direction, leadership and accountability are the roles of the board of a company or the governing body of an organization and systems and processes are the means by which they meet those obligations. A typical firm is characterized by numerous owners having no management function, and managers with no equity interest in the firm. Shareholders, or owners of equity, are generally large in number, and an average shareholder controls a minute proportion of the shares of the firm. This gives rise to the tendency for such a shareholder to take no interest in the monitoring of managers, who, if left to themselves, may pursue interests different from those of the owners of equity. For example, the managers might take steps to increase the size of the firm and, often, their pay, although that may not necessarily raise the firm's profit, the major concern of the shareholder.

Issues on corporate governance have been well documented in the literature. For example various researches have been conducted to examine the effect of corporate governance mechanism (ownership structure, board composition, board and CEO ownership, CEO compensation and tenure) on company performance. In Asia, Chen et al (2005) analyzed 412 publicly listed firms in Hong Kong from 1995-1998 to examine whether corporate governance mechanisms (CEO duality, composition of BOD, audit committee) affect performance, value and dividend payout in family controlled firms. They measured firm performance using three different variables - ROA, ROE and market to book ratio. Their results indicate that there is a negative relationship between CEO duality and performance (the market to book ratio). The relationship was significant even after controlling for industry and firm fixed effects. They concluded that CEO duality is associated with lower firm value i.e. companies with combined structure have a lower performance.

Coles et. al., (2001) states that much of the academic work in the corporate governance field has focused on how to design corporate governance mechanisms that will motivate managers to make choices for the firm that will improve performance. However these researches indicate mixed findings. Coles classified governance mechanisms into two broad categories namely organizational monitoring mechanisms (including leadership structure and board structure) and CEO incentive alignment mechanisms (including CEO compensation and ownership structure).

Furthermore, Haniffa and Hudaib (2006) investigated the relationship between six corporate governance variables (board size, board composition, CEO duality, multiple directorship, ownership concentration and managerial shareholding) and two performance measures (Tobin Q and ROA) in Malaysia. They studied 347 firms listed on the KLSE between 1996 and 2000. They found that board size and ownership concentration (measured by top 5 substantial shareholding) is significantly associated with both market and accounting performance measures. Board size had a negative correlation with the market performance providing evidence that the market views big boards as ineffective but had a positive correlation with accounting performance. This means that big boards help provide diversity and bring wealth and expertise into companies. Concentrated shareholding also had a negative correlation with the market performance suggesting that market performance is better for firms with diffused ownership. It had a positive correlation with accounting performance. This means that Malaysian firms produce better accounting results with concentrated ownership. In addition, they found a negative significant relationship between multiple directorship and market performance suggesting better market performance when directors do not hold additional directorship. They also found that CEO duality has a significant negative relationship with accounting performance i.e. firms with a combined structure had a weaker accounting performance. Finally they found a significant negative relationship between managerial ownership and accounting performance and conclude that the insider model of corporate governance is unsuitable in the Malaysian business environment. This problem is also associated with high cross holding of ownership in Malaysian firms via pyramiding.

Besides Haniffa and Hudaib, an ealier study was done by Khatri et.al (2002) to examine the corporate sector performance (efficiency) and the role of corporate governance (high leverage and ownership concentration) in Malaysia. They fitted a panel dataset of 31 largest non-financial companies listed on the KLSE for the period of 1995 to 1999 to a stochastic frontier. Their results show that ownership concentration has a high significance and explanatory power that provides evidence for a positive relationship between inefficiency and system of cross shareholding and ownership concentration i.e. firms that has a high ownership concentration are inefficient.

2.2.1 Board Size and Financial Performance

Balancing between large boards or small boards is an exponential task as both have a set of challenges associated with each. With large boards it is expected that they are beneficial in terms of the members bringing expertise and resources to the firm. However boards with a large number of members, create issues of coordination, flexibility and decision making difficult. Jensen (1993) argues that as board size increases, board’s ability to monitor management decreases as most members have their own companies to run and have little or no time to perform a better overseer function. Similarly, Hermalin and Weisbach (2003) argue that consensus among economic literature is that large boards will weaken a company’s performance. Empirical studies on board size seem to suggest a similar conclusion that a negative relationship exists between large board size and firm performance. The notion widely held is that substantive discussion on major issues is insufficient and the board decision can easily be hijacked by those with self-interest. Mak and Yalanto (2003), using a sample study from Malaysia/Singapore study, found that company performance is highest when board size is small in size. Sanda et al., (2003), in a Nigerian study seems to agree that small boards contribute to a better performance as coordination and decision making becomes less lengthy and less time consuming. Lastly Mak and Kusnadi (2005) also affirm that small boards have a positive relation with high performance.

In all these findings there is a consensus by the respondents that large boards point to a weak corporate governance structure 22(37.3%) and particularly limiting the number of board members will generally improve performance of banks 30(50.8%) by the majority of respondents. These arguments suggest that large boards will affect performance of banks.

2.2.2 Board Composition and Financial Performance

The company board of directors is the chief role of internal governance mechanism charged with overseeing the executive decisions. A board, functions effectively if it is composed of the 'right people', has the 'right attitude' and approach from the management, external auditors and staff. The board of a private limited liability company can be composed of one or more members while that of a public company should ideally have three member representatives. However both consider the skills, experience and expertise to bring to the board. The larger number should be of independent members Andersons et al.,(2007). The recent research findings on new regulatory frameworks relating to corporate governance, aims at increasing transparency of how companies are managed .Furthermore, most of these regulations are designed to address the extreme problems of corporate malfeasance, such as fraud, falsification of accounts and most importantly hiding the risk.

Extant evidence, point to a more active role and independence of directors as they make better monitors. Studies undertaken suggest a better stock returns and operating performance when outside directors hold a significant number of board seats Cornett et al, (2008); Ravina and Sapienza, (2009). Furthermore, Klein, (2002) found a lower presence of abnormal accruals when the board hold more than a majority of outside directors. Studies carried out by Cornett et al (2008); Ravina and Sapienza, (2009) found that independent board members contribute positively to bank performance as they bring little or no personal interest.

Abdullah (2004) analyzed all companies listed on the Main Board of Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) between 1994 and 1996 to investigate the effect of board composition and CEO on company performance (ROA, ROE, EPS and profit margin). In contrast to Rechner and Dalton (1991), he found that board independence and CEO duality did not have any relation to firm performance. He also found that board independence is negatively associated with CEO duality. Thus, firms with CEO duality have lower percentage of outside director. However, he found that Malaysian companies had been dominated by outside director and majority firms practiced non-dual leadership structure. Dehaene et. al., (2001) analyzed 122 Belgian companies to verify whether a relationship exist between board composition (number of directors, percentage of outside director, CEO duality) and company performance (ROA and ROE). Their findings indicate a significant positive relationship between percentage of outside director and ROE i.e. the more external director a company has, the better is its performance. They also found a significant positive relationship between CEO duality and ROA i.e. if the CEO is also the Chairman of BOD, the company would show higher ROA.

2.2.3 CEO Reputation and Financial Performance

The CEO integrity is an integral component of governance mechanism and best practices. Alan Greenspan former chairman Federal Reserve USA aptly stated the importance of the CEO integrity; "Recent transgressions in the financial market, have underscored the fact that one can hardly overstate the importance of a reputation in a market economy". The CEO reputation is a significant indicator of the performance of a firm. The sensitivity of a money market makes the CEO role more important in steering the financial institution in the right direction. Most recently, the Barclays Bank UK was involved in a scandal of fixing the London inter-bank offered rates known as LIBOR. The CEO and Chairman resigned because of their culpability in the scandal this was in a move to stem the damage it would have on Barclays share on the London stock Exchange among other things.

A dual role of CEO and Chairman is a key characteristic of insider power and considered an indicator of a weak corporate governance mechanism (Larcker et al (2007), Yermack (1996). Traditionally in the US the role of CEO and Chairman has been occupied by a single person, Brickley et al., (1997). This concentration of power however spells doom for most companies as CEO can effectively control the information available to other board members and impede effective monitoring (Jensen, 1993). In the past companies that were involved in fraud had a single person holding both positions e.g. Enron, WorldCom, Global crossing. Similarly Beasley et al (1999) found that CEO was involved in 72% of these frauds. Several researches carried out examined the separation of role of CEO and Chairman Board; findings were that Agency problems were higher where the same person occupies the two positions. Carpeto et al., (2005) asserts that the decision to split both roles of CEO and board Chair is associated with positive and significant abnormal returns.

To a certain extent firm performance can be attributable to the stewardship of CEO and evidence from some researches backs that. Hermalin & Weisbach (2003) suggest that the CEO reputation may affect governance. Performance is a function of many factors and evidence on studies of CEO reputation Vis-à-vis performance is at best mixed. While most company's CEO wield power others are cosmetic tutorial heads. Recent studies have shown governance to be both endogenous and multidimensional e.g. Bhagat & Bolton (2008). Findings in Milbourn (2003), found a positive relation between CEO reputation and stock based pay performance, combined with other findings, they suggest that the reputation of CEO influences tradeoffs between CEO stock based sensitivities and other monitoring mechanisms like board monitoring and shareholder rights up to a certain level of CEO reputation. Researchers are in agreement that there is need to consider an array of corporate governance mechanisms for a complete understanding of the relation of CEO reputation and governance related performance.

2.2.4 Ownership Structure and Financial Performance

The structural and organization between foreign banks, private owned, and government owned or partially owned present different implications, challenges for differences in cost structures, scale and scope of economies. These ownership structures present different challenges and opportunities. Research that followed Jensen and Meckling (1976) work looks at the impact of ownership structure, Eldenburg et al, (2004) stated that differences across ownership types will be associated with differences in board objectives and governance.

Besides, Arun and Turner (2004) discussed the corporate governance of banking institutions in developing economies. Based on their findings on corporate governance of banks, they suggest that banking reforms can only be fully implemented once a prudential regulatory system is put in place. One of the key reforms they highlight is the privatization of banks. They also suggest that corporate governance of reforms maybe a prerequisite for the successful divestiture of government ownership. It is believed that increased competition resulting from entry of foreign banks may improve the corporate governance of developing economies banks.

Following the 2002 World Development Report, Boubakri et al (2002) advance three arguments justifying state over private ownership of banks. Those private banks are more prone to crisis and excessive ownership may limit access to credit to many parts of society and also government has the capacity to allocate capital to certain investments. Two theories have since emerged advanced for government participation in the financial market namely; the Development view and the Political view. The development view suggest that in some countries economic institutions are not well developed, government ownership of strategic economic sector such as banks is important to jump start both financial and economic development hence fostering growth. The political view suggest that government ownership in most developing countries acquire banks and other enterprises to provide employment, to benefit supporters in return for votes, campaign contributions and bribes. Such approach is common in developing economies with a poorly developed financial sector. The development view however, government finances projects that socially desirable. In both views, the government finances projects that would get privately financed (La Porta et al, 2002).

While such arguments present valid reasons, recent research point to the cost of government ownership of bank's having a depressing impact on overall growth. La Porta et al, (2002). There is a negative correlation between the share of sector assets in state banks and country's per capita income level. Greater state ownership tends to be associated with lower efficiency, less savings and lower productivity Barth et al (2000). Even government residual ownership is likely to have an effect on performance Boubakri et al (2002); Littlechild (1981). Majority of privately owned banks have a positive correlation with superior performance Lang & So (2002), Cornett et al (2000).

Theoretically speaking the above argument is consistent with the agency problem hypothesized by Jensen and Meckling (1976). State ownership would be inefficient due to lack of capital, lack of proper regulation and monitoring which according to the agency theory would tempt managers to pursue their own agendas at the expense of the enterprise. Managers of private banks will have a greater supervision, environmental pressure to deliver and capital market monitoring which punishes inefficiencies and makes private banks economically more efficient Lang & So (2002). The importance of restructuring and privatization of the financial sector has received tremendous attention in the past in a bid to revitalize the economies World Bank, (1996), Sachs, (1997) and Scholtens (2000). A growing literature underscores the importance of the banking sector to economic growth. In 2002, the government of Uganda successfully sold off the largest commercial bank, Uganda Commercial Bank (UCB) both by deposit taking and foot print country wide to a South African Bank the Standard Bank group. The government set a precedent of selling majority of its shares in most parastatals remaining with just a few shares. The opening of the financial sector to private and foreign investment has strengthened the economy. In contrast, some research suggests that advantages of foreign ownership trump the disadvantages in developing nations e.g. Claessens, Demirguc-Kunt and Huizinga (2001), Bonin, Hasan and Watchtel (2004). Other research on the impact of foreign ownership and entry and fewer restrictions on these banks are associated with more competitive national banking systems Claessens and Laeven (2004), Martinez, Peria and Mody (2004). This may be due to superior access to capital markets, technologies or due to problems of domestically owned banks in these countries.

2.3 Summary of Literature Review

Penrose (2007) asserts that a firm may achieve rents not because it has better resources but rather because it makes better use of its resources. Good corporate governance creates value added (through entrepreneurism, innovation, development and exploration) and provides accountability and control systems commensurate with the risks involved. Financial performance is the measure of the extent to which objectives of an organization are achieved in relation to defined standards and targets for each objective Monaghan, (2000); Dess and Shaw, (2001). It involves outcomes in the firm's earnings, capital adequacy, assets quality and liquidity available for operation of the firm. Gompers et al., (2003) find that firms with strong shareholder rights have superior valuation, better profits, and better sales growth.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents a description of research methodology that was used to carry out the study. It covered the research design, study population, determination of sample size, sampling techniques and procedures, data collection methods , data collection instruments, Validity and reliability of research instruments, Procedure of data collection, data analysis and measurement of Variables.

3.1 Research Design

The research adopted a cross- sectional survey research design to gather data from a rather large pool of respondents (Olsen & George 2004). The study adopted both qualitative and quantitative methods in order to increase viability and the strength of the report, Patton (2001) advocates the use of triangulation by stating “triangulation strengthens a study by combining methods. However, the idea of combining methods has been challenged by Barbour (1998). She argues while mixing paradigms can be possible but mixing methods within one paradigm, such as qualitative research, is problematic since each method within the qualitative paradigm has its own assumption in “terms of theoretical frameworks we bring to bear on our research” (p. 353).

3.2 Study Population

For the purpose of this study, a total population of 70 staff of Housing finance bank was used in the study. The population comprised of 10 top management staff, 20 heads of departments, and 40 middle level managers. Therefore, a total population of 70 staff of Housing finance bank was used for the study (Housing Finance Bank HR Report, 2013).

3.3 Determination of the Sample Size

A total sample size of 59 was used for this study in line with Krejcie and Morgan (1970) table guide for sample determination. The selection of sample size used in the study was done as explained in table 2 below:

Table 2: Showing Sample Size Determination

Category	**Population**	**Sample Size**	**Sampling Technique**
Top Management staff	10	10	Purposive sampling
Heads of Departments	20	16	Simple Random Sampling
Middle Level Managers	40	33	Simple Random Sampling
Total	**70**	**59**	

Source: *Modified based on Krejcie and Morgan (1970), Table Guide for Sample Determination*

3.4 Sampling Techniques and Procedures

For the purpose of this study, both purposive and simple random sampling methods were used for selecting the sample. Simple random sampling involves picking a sample at a random without discrimination and all samples are given equal chances of being selected for the study. Mugenda and Mugenda (1999) further explain the goal for simple random sampling is to achieve desired presentation from the members of accessible population. Purposive sampling on the other hand is used to choose what the researcher feels is the key informants. In this study therefore, the researcher used it on the top tier of the bank as they are policy and strategic management decision makers. Therefore for the purpose of this study, 10 top management staff, 16 heads of departments, and 33 middle level managers were purposively and randomly sampled by the researcher.

3.5 Data Collection Methods

Both qualitative and quantitative data collection methods were employed in the study. Use of multiple data collection methods checks validity of study findings. This allowed generalisation of results to target population.

3.5.1 Questioning

Questions were asked as a method of getting information from respondents. Self-administered Questionnaires was used to collect data from all the respondents in the study sample in table 2 above. Questionnaires were used because they are easy to employ to big numbers of respondents and do not require the presence of the researcher or research assistant.

3.5.2 Interviewing

An interview is a face to face interaction between the interviewer and interviewee .The interview permits the researcher to follow up leads and thus obtain more data and greater clarity. The respondents in the sample in table 2 above were interviewed so as to get an in-depth understanding of the study theme.

3.5.3 Documentary Review

The method was aimed at collecting information from the already existing sources by different scholars about a study phenomenon (Bruce, 1994). The chief sources of documentary review were broadly classified into two groups namely, published sources and unpublished sources. The use of documentary sources is important in relating the study and its findings with other published and sometimes unpublished information. The information from secondary data would be collected by visiting the libraries in different institutions, internet for related data about the relationship between corporate governance and financial performance of commercial banks. Some of the documents were reviewed before the field data collection exercise while some were picked during field data collection especially during interviews with key respondents and was to be used to enrich the study discussions. Documentary evidence analyzed included both primary and secondary sources of data in relations to corporate governance and financial performance of Housing finance bank (Mushemeza, 2009).

3.6 Data Collection Instruments

3.6.1 Questionnaires

The questionnaire was designed and administered to the targeted respondents. The questionnaire was semi structured in nature embracing both open and closed ended questions whereby they read and wrote besides ensuring confidentiality. It was administered to top management staff, heads of departments, and middle level managers since the researcher needed immediate feedback to save time and solve language barrier and misinterpretation of questions by category. The questionnaire has close- ended questions to capture accurate quantitative data. A 5- point likert scale was used (5: Strongly agree, 4:agree. 3: neutral or not sure, 2: disagree, 1: strongly disagree) which allowed respondents to choose from a set of alternatives. The instrument is preferred because it was time saving as one spends little time in moving from one respondent to another during data collection (scattered respondents) unlike in interview method (Kakoza, 2002).

3.6.2 Interview Guides

Unstructured interview guides was used to gather data from key informants sampled in table 2 above. An unstructured interview was used because they are more flexible and permit probing of respondents in order to get in-depth detailed information (Amin, 2005).

3.6.3 Documents

Assortments of relevant official documents were reviewed. This was to augment information gathered using other research instruments. Both published and unpublished reports and documents were reviewed by the researcher.

3.7 Validity and Reliability

3.7.1 Validity

Validity refers to how accurately instruments capture data that gives meaningful inferences (Mugenda & Mugenda, 2003).Validity of the instrument was obtained through subjecting the data collection instrument to scrutiny from experts (academics and practitioners) to establish relevance of the questions/ items in instrument using the Content Validity Index (CVI).

$$\text{CVI} = \frac{\text{Number of items declared valid by judges}}{\text{Total number of items}}$$

CVI= n/N

Where n= items that rated relevant

N= total number of items

37/41 = **0.90**

The average index was 0.90 which acceptable and implies that the research instrument was good enough as the instrument to be accepted as valid, this average index should be 0.7 or above, (Amin, 2005).The researcher enlisted the help from her direct supervisors from the Department of Higher Degrees to ascertain if the questionnaire were valid, and consulted with colleagues to check the questionnaire and their input were incorporated in the final tools which were used.

3.7.2 Reliability

Reliability refers to the degree to which the instruments consistently measure whatever it is measuring Amin (2005: 293). An instrument is reliable if it produces the same results whenever it is repeatedly used to measure trait or concept from the same respondents even by other researchers. To ensure reliability of research instruments, the interview guide was piloted on purposively selected respondents and where need arises; adjustments were made before the real research process. The questionnaires was pretested equally and revised as necessary before the research process began. The Cronbach`s alpha-α test (Min=0.5) measured the scale reliability for internal consistency of the items. Reliability was obtained by using Cronbach's coefficient test as stated in the following formula:

$$\alpha = \frac{K}{K-1}\left[\frac{1-\sum \delta^{2} k}{\delta^{2}}\right]$$

Where:

α = Alpha coefficient

δ^{2} = Variance of the total test

$\sum \delta^{2} k$ = Sum of variances of the k questions in the instrument

K = Number of questions in the research instrument

Thus, from the formula above, the Cronbach alpha coefficients for the study variables were generated as shown in table 3 below. All the variables have coefficients greater than 0.5, which is the minimum expected coefficient.

Table 3: Showing Cronbach's Alpha Coefficient for the Study Variables

Study Variables	Anchor	Cronbach's Alpha
Board Size	5 Point	**0.864**
Board Composition	5 Point	**0.815**
CEO Reputation	5 Point	**0.665**
Ownership Structure	5 Point	**0.755**
Financial Performance	5 Point	**0.877**

Source: Primary data

3.8 Procedure of Data Collection

After the research proposal was approved and passed together with the research data collection tools, the researcher sought permission from the head of department higher degrees, Uganda Management Institute addressed to the bank management where the study was conducted. The letter sought to introduce the researcher as a student of Uganda Management Institute. It explained what the research was about and the purpose of the study. It requested for any necessary assistance to be offered to the student. The researcher then contacted the various authorities to which the letter was addressed and then made appointments when the study could be carried out to enable proper planning. Interviews and questionnaires as data collection methods were administered starting to the sampled respondents as indicated in table 2 above. The reasoning is to have that flow of order for purposes of easy comparison of data collected from each of the respondent categories. A work plan on collection of data was shared with senior management to enable the researcher to easily interface with the respondents at the scheduled times. Relevant information was obtained from staff of Housing finance bank using the questionnaires and the interview guide with questions developed from the literature review.

3.9 Data Analysis

Collected data was compiled, sorted edited and coded to have the required quality, accuracy and completeness. It was entered into the computer for analysis using Statistical Package for Social Sciences (SPSS 19). Correlations were used to measure the relationship between corporate governance and financial performance of the commercial bank used as case study. Regression analysis was used to explain how corporate governance affects financial performance of commercial banks. The results were presented in descriptive formats such as narratives, tables, frequencies, percentages, graphs and citations.

3.9.1 Quantitative Data Analysis

Quantitative data was analyzed using SPSS (19) to derive relevant descriptive statistics (frequencies, pie chart and percentages) which were further be analyzed in order to arrive at relevant conclusions. It was presented using tables. The relationship between variables was computed using Pearson's correlation coefficient.

3.9.2 Qualitative Data Analysis

This involved employing methods that are non-quantitative, and aimed at exploration of social relations, and would describe reality as experienced and presented by respondents. Its major purpose is to promote greater understanding of not just the way things are, but also why they are the way they are (Amin, 2005). Other qualitative methods included the pilot study, observation results, and relevant quotes from the respondents in addition to secondary data to compare with the primary data.

3.10 Measurements of the Research Variables

Corporate governance was measured using the dimensions of board size, board composition, CEO reputation, and ownership structure as adopted form Faizul et al., (2007) and Haniffa and Hudaib (2006).

Financial Performance was measured using the dimensions of profitability, capital adequacy, and asset quality as adopted from Monaghan (2000); Dess and Shaw (2001).

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter gives the presentation, analysis and interpretation of the results of the study. The trend of the discussion is focused on the relationship between and among the study variables in an attempt to answer the research questions. The variables of the study and their percentages are presented in tables, graphs and statistical tests to show the relationship between research variables. Descriptive statistics are presented later in the chapter to explore the results pertaining to the study based on the research objectives as stated below.

i) To examine the relationship between board size and financial performance of Housing finance bank;
ii) To examine the relationship between board composition and financial performance of Housing finance bank;
iii) To examine the relationship between CEO reputation and financial performance of Housing finance bank;
iv) To examine the relationship between ownership structure and financial performance of Housing finance bank.

4.1 Response Rate

Frederick and Wiseman (2003) assert that a response rate has to be presented in research findings as they present the validity of the study and failure to do so put the validity of the study findings into question. Response rate was frequently used to compare survey quality. The study targeted a sample of 59 respondents. A total of 59 questionnaires were distributed and all responses were received back, accounting for 100% response rate. This is shown in table 4 below.

Table 4: Showing Response Rate

Category	Population	Sample Size	Response Rate
Top Management Staff	10	10	10
Heads of Departments	20	16	16
Middle Level Managers	40	33	33
Total	**70**	**59**	**59**

Source: Primary data

According to Amin (2005), for a valid research to be conducted, a minimum of 30 to 50 participants is required for the study. From table 4 above, the findings indicate that all categories of respondents participated in the study, accounting for 100% participation by staff of Housing finance bank, who were targeted by this study.

4.2 Demographic Characteristics of Respondents

This section examines the characteristics of the sample collected. This section gives the number of people who responded to the study with regards to the characteristics of the respondents in relation to gender, level of education, and years in service in the company. Frequency tables were used for presentation and analysis of the sample characteristics.

4.2.1 Gender of Respondents

Frequency table was used to present and analyse data on the age group of the respondents. This is illustrated in table 5 below.

Table 5: Showing Frequency Distribution for Gender of the Respondents

Gender		**Frequency**	**Valid Percent**
Valid	Male	33	55.9
	Female	26	44.1
	Total	**59**	**100.0**

Source: Primary data

From table 5 above, the findings indicate that majority (33%) of the respondents were male, while the female comprised 26% of the respondents. This implies that majority (33%) of the respondents who participated in this study were male, meaning that the male are more involved and dominates among the selected categories of staff from Housing finance bank used in this study.

4.2.2 Education Level of Respondents

Frequency table was used to present and analyse data on the education level of the respondents. This is illustrated in table 6 below.

Table 6: Showing Frequency Distribution for Education Level of Respondents

Education Level		Frequency	Valid Percent
Valid	PhD	5	8.5
	Masters	5	8.5
	Degree	49	83.0
	Total	**59**	**100.0**

Source: Primary data

From table 6 above, the findings shows that majority (83%) of the respondents had attained bachelor's degree, while respondents with PhD and Masters both comprised of 8.5% respectively. This implies that majority of the respondents (83%) were bachelor's degree holders, meaning that they were in better position to articulate issues and serve in their current positions of management in Housing finance bank.

4.2.3 Numbers of Years Worked For Housing Finance Bank

Frequency table was used to present and analyse data on the number of years worked for Housing finance bank by the respondents. This is illustrated in table 7 below;

Table 7: Showing Frequency Distribution of Number of Years Worked For the Bank

Number of Years		Frequency	Valid Percent
Valid	Less than 1 year	13	22.0
	1 – 3 years	37	62.7
	4 – 6 years	9	15.3
	Total	**59**	**100.0**

Source: Primary data

From table 7 above, the findings indicate that majority (63%) of the respondents had worked for the bank for the period between 1 – 3 years, while 22% had worked for the period of less than 1 year. Further analysis from the table above also indicates that 15% of the respondents had worked for the bank for the period between 4 – 6 years. This implies that majority (63%) of the respondents had worked for the bank for the period between 1 – 3 years, making them more informed about the management and operational issues of the bank.

4.3 Descriptive Statistics for the Study Variables

Descriptive statistics were used to analyse the variables under study. Data on board size, board composition, CEO reputation, and ownership structures and financial performance were collected based on the respondents' understanding of corporate governance in the bank. The data were presented in tabular form below.

4.3.1 Descriptive Statistics for Board Size and Financial Performance

Descriptive statistics were used to analyse the impact of boar size on financial performance. Data on the impact of board size on financial performance was collected based on the respondents' understanding of corporate governance in the bank. The data was presented in table form below 8 below.

Table 8: Showing Descriptive Statistics for Board Size and Financial Performance

Statement on Board Size	**Percentage Responses (%)**					**Mean**	**Std dev**
	SA	**A**	**N**	**D**	**SD**		
Board members understand their responsibilities	26 (44.1%)	24 (40.7%)	4 (6.8%)	2 (3.3%)	3 (5.1%)	**1.5**	**.61**
Board and sub committee meetings are conducted regularly	27 (45.7%)	19 (32.2%)	5 (8.5%)	4 (6.8%)	4 (6.8%)	**1.9**	**1.21**
Corporate governance of banks needs special attention	23 (39.1%)	21 (35.6%)	6 (10.1%)	6 (10.1%)	3 (5.1%)	**1.6**	**.66**
Board size contributes greatly to firm value	15 (25.4%)	10 (17%)	3 (5.1%)	22 (37.3%)	9 (15.2%)	**1.7**	**.55**
Small boards are beneficial to high performance	23 (39.1%)	8 (13.5%)	13 (22.1%)	10 (16.9%)	5 (8.4%)	**2.3**	**1.24**
Limiting board size improves performance of the bank	15 (25.4%)	30 (50.8%)	3 (5.1%)	7 (11.9%)	4 (6.8%)	**2.3**	**1.24**
A large board is a characteristic of weak corporate governance	14 (23.8%)	22 (37.3%)	8 (13.6%)	9 (15.2%)	6 (10.1%)	**2.4**	**1.11**
Board size increase affects monitoring of management	14 (23.8%)	28 (47.4%)	8 (13.6%)	4 (6.8%)	5 (8.4%)	**2.2**	**1.16**

Source: Primary data

Findings from table 8 above, indicated that 26 (44.1%) constituted the majority of the respondents who strongly agreed that Board members understand their responsibilities, 24 (40.7%) agreed, 4 (6.8%) were not sure, 2 (3.3%) of the respondents disagreed while 3 (5.1%) strongly disagreed. Since majority of the board members understand their responsibilities, the implication is that services offered are properly tailored to meet the customer needs hence meeting their financial requirements and as well making a strong customer base since there is a saying which states that "a satisfied customer buys again".

Furthermore, majority (27, 45.7%) of the respondents strongly agreed that Board and sub committee meetings are conducted regularly, 19 (32.2%) agreed, 5 (8.5%) of the respondents were not sure while 4 (6.8%) disagreed and strongly disagreed respectively. The implication here is that this enables them to discuss issues and merge ideas with those of the directors and that of their subordinates for the proper functioning of the bank.

The study findings also indicate that 23 (39.1%) of the respondents who were the majority strongly agreed that Corporate governance of banks needs special attention, this was followed by 21 (35.6%) of the respondents who strongly agreed, 6 (10.1%) were not sure and disagreed respectively while 3 (5.1%) strongly disagreed. 22 (37.3%) of the respondents constituting the majority disagreed that Board size contributes greatly to firm value, 15 (25.4%) of the respondents agreed, 10 (17%) agreed, 9 (15.2%) strongly disagreed while 3 (5.1%) were not sure. Study findings indicate that 22 (37.3%) agreed that a large board is a characteristic of weak corporate governance, 14 (23.8%) agreed, 8 (13.6%) were not sure, 9 (15.2%) disagreed while 6 (10.1%) strongly disagreed. Majority of the respondents agreed with the assertion and thus could negatively affect performance. A key informant had this to say:

"Large boards point to a weak corporate governance structure and if performance is to be improved in the banking sector then the owners of such banks have to limit on the number of board members, this will boost their performance".

More so, the study findings also indicate that majority (23, 39.1%) strongly agreed that Small boards are beneficial to high performance, 13 (22.1%) of the respondents were not sure, 10 (16.9%) disagreed, 8 (13.5%) agreed while 5 (8.4%) strongly disagreed. In analysis, the study found out that qualitative data that was obtained during the study was in line with quantitative data. One the respondent said that;

"*That bank's performance is highest when board size is small in size".*

Further analysis from the results also indicated that 30 (50.8%) of the respondents constituting the majority agreed that Limiting board size improves performance of the bank, 15 (25.4%) strongly agreed, 15 (25.4%) disagreed, 4 (6.8%) of the respondents strongly disagreed while only 3 (5.1%) of the people interviewed were not sure.

4.3.2 Descriptive Statistics for Board Composition and Financial Performance

Descriptive statistics were used to analyse the effect of board composition on financial performance. Data on the effect of board composition on financial performance was collected based on the respondents' understanding of corporate governance in the bank. The data was presented in table form below 9 below.

Table 9: Showing Descriptive Statistics for Board Composition and Financial Performance

Statement on Board Composition	Percentage Responses (%)					Mean	Std dev
	SA	A	N	D	SD		
Directors' independence increases decision making	13 (22%)	22 (37.3%)	17 (28.9%)	5 (8.5%)	2 (3.3%)	**2.3**	**.95**
The board with higher number of non executive directors suggest better performance	10 (16.9%)	15 (25.4%)	9 (15.3%)	21 (35.6%)	4 (6.8%)	**2.7**	**1.13**
Higher number of executive directors affect board performance	20 (33.9%)	25 (42.3%)	8 (13.6%)	3 (5.1%)	3 (5.1%)	**1.8**	**.68**
Independent directors make better monitors	32 (54.3%)	11 (18.6%)	12 (20.3%)	2 (3.4%)	2 (3.4%)	**1.8**	**.99**
Managerial inefficiency are a result of weak governance	19 (32.2%)	24 (40.6%)	4 (6.8%)	7 (11.9%)	5 (8.5%)	**2.2**	**1.26**

Source: Primary data

According to the table 9 above, majority of the respondents 22 (37.3%) agreed that directors' independence increases decision making, 13 (22%) of the respondents strongly agreed, 17 (28.9%) were not sure, 5 (8.5%) disagreed while only 2 (3.3%) strongly disagreed. Since majority of the respondents agreed, it suggests that in housing finance bank, directors are free to make decisions like concerning the affairs on how the bank should be run and on the services it offers. The finding is corroborated with findings from key informant interviews which indicated that the directors are free will to make decisions that will foster growth and improved service delivery even without consultation. One of the key informants had this to say:

"It is good for directors to have powers to make decisions mostly if there is something that has to be addressed urgently other than calling for a board meeting to sit and discuss and agree on certain issues".

Further analysis from the findings indicate that majority of the respondents strongly agreed (21, 35.6%) that a higher number of non executive directors suggest better performance, 10 (16.9%) strongly agreed while 4 (6.8%) of the respondents strongly disagreed. Since majority disagreed, it means that the bank board of directors is composed of only people that are capable of contributing to the growth of the bank and this has always forced them to limit the number of directors for better performance. One of the key informants had this to say;

"For an organization to perform well, it needs to have people who are valuable and can as well contribute to the proper functioning of the organization and for that matter our bank chose not to have so many non executive directors".

The study findings also show that 25 (42.3%) of the respondents agreed that a Higher number of executive directors affect board performance, 20 (33.9%) of the respondents strongly agreed, 8 (13.6%) were not sure while 3 (5.1%) respectively disagreed and strongly disagreed. The implication of the results is that a large board of directors constituted a large expenditure in terms of allowances yet some of them may not be very active in the running of the bank. From the study, majority 32 (54.3%) of the respondents strongly agreed that Independent directors make better monitors, this was followed by 11 (18.6%) who agreed, 12 (20.3%) of the respondents who were not sure on this, while 2 (3.4%) constituting the minority disagreed and strongly disagreed respectively. The implication of the study findings mean that those boards should be composed of more independent directors as they make better monitors.

4.3.3 Descriptive Statistics for CEO Reputation and Financial Performance

Descriptive statistics were used to analyse the effect of CEO reputation on financial performance. Data on the effect of CEO reputation on financial performance was collected based on the respondents' understanding of corporate governance in the bank. The data was presented in table form below 10 below.

Table 10: Showing Descriptive Statistics for CEO Reputation and Financial Performance

Statement on CEO Reputation	Percentage Responses (%)					Mean	Std dev
	SA	A	N	D	SD		
A dual role of CEO and chairman is related to insider power	18 (30.5%)	24 (40.7%)	10 (16.9%)	4 (6.8%)	3 (5.1%)	**2.7**	**.89**
The role of CEO and chairman should be held by a single person	25 (42.4%)	17 (28.9%)	2 (3.3%)	10 (16.9%)	5 (8.5%)	**2.5**	**1.48**
Agency problems arise with duality of CEO and chairman's role	17 (28.8%)	12 (20.3%)	22 (37.3%)	4 (6.8%)	4 (6.8%)	**2.7**	**1.17**
Split role of CEO and chairman suggests better governance	20 (33.9%)	25 (42.4%)	4 (6.8%)	4 (6.8%)	6 (10.1%)	**1.8**	**.61**
The bank has specific written procedures in regard to corporate governance	23 (38.9%)	21 (35.6%)	4 (6.8%)	8 (13.6%)	3 (5.1%)	**2.3**	**.62**

Source: Primary data

From table 10 above, the study findings indicate that 18 (30.5%) of the respondents strongly agreed that the dual role of CEO and chairman is related to insider power, 24 (40.7%) agreed, 10 (16.9%) strongly agreed, 4 (6.8%) disagreed while 3 (5.1%) strongly disagreed.

Besides, the researcher also wanted to establish whether the role of CEO and chairman should be held by a single person, 25 (42.4%) strongly agreed, 17 (28.9%) agreed, 2 (3.3%) were not sure, 10 (16.9%) disagreed while 5 (8.5%) strongly disagreed.

Furthermore, in a related case, respondents were asked if Agency problems arise with duality of CEO and chairman’s role, 17 (28.8%) strongly agreed, 12 (20.3%) agreed, 22 (37.3%) were not sure, 4 (6.8%) disagreed and strongly disagreed respectively.

More still, 20 (33.9%) of the respondents strongly agreed that Split role of CEO and chairman suggests better governance, 25 (42.4%) agreed, 4 (6.8%) of the respondents were not sure and disagreed respective while 6 (10.1%) strongly disagreed.

In addition, findings from the above table also indicated that the respondents were asked if the bank has specific written procedures in regard to corporate governance, 23 (38.9%) of the respondents agreed, 21 (35.6%) strongly agreed, 4 (6.8%) were not sure, 8 (13.6%) disagreed while 3 (5.1%) strongly disagreed.

4.3.4 Descriptive Statistics for Ownership Structure and Financial Performance

Descriptive statistics were used to analyse the effect of ownership structure on financial performance. Data on the effect of ownership structure on financial performance was collected based on the respondents’ understanding of corporate governance in the bank. The data was presented in table form below 11 below.

Table 11: Showing Descriptive Statistics for Ownership Structure and Financial Performance

Statement on Ownership Structure	Percentage responses (%)					Mean	Std dev
	SA	A	N	D	SD		
Foreign ownership impacts positively on bank profitability	19 (32.2%)	14 (23.7%)	3 (5.1%)	8 (13.6%)	15 (25.4%)	**2.7**	**1.63**
Foreign banks offer lower interest margins	17 (28.8%)	10 (16.9%)	11 (18.7%)	12 (20.3%)	9 (15.3%)	**2.7**	**1.45**
Government involvement in banking is important	32 (54.2%)	17 (28.8%)	3 (5.1%)	3 (5.1%)	4 (6.8%)	**1.8**	**1.18**
Foreign bank ownership in a host market may obstruct development	7 (11.8%)	16 (27.1%)	13 (22.1%)	4 (6.8%)	19 (32.2%)	**2.3**	**1.32**
Listed banks on stock exchange perform better	16 (27.1%)	20 (33.9%)	10 (17%)	6 (10.1%)	7 (11.9%)	**2.1**	**.75**

Source: Primary data

From table 11 above, the findings in the table 14 indicate that 19 (32.2%) of the respondents who were the majority strongly agreed that Foreign ownership impacts positively on bank profitability, 14 (23.7%) agreed, 3 (5.1%) were not sure, 8 (13.6%) disagree while 15 (25.4%) strongly disagreed. The implication here is that indigenous companies borrow a leaf and thus improve on their performance so as to satisfy its customers. One of the key informants had this to say:

"With the coming of foreign actors in the banking sector it has greatly led to the improvement of the services offered by financial institutions in terms of customer care for fear of losing them to the competitors".

Further analysis from the findings indicates that 17 (28.8%) of the respondents that were the majority strongly agreed that Foreign banks offer lower interest margins as compared to the indigenous ones, 10 (16.9%) agreed, 11 (18.7%) of the respondents were not sure, 12 (20.3%)

disagreed while 9 (15.3%) strongly disagreed. the implication here is that they offer lower interest rates simply because they are subsidized and given tax holidays. This greatly impacts on their performance and the way the offer their services to the entire public. One of the respondents said that;

"We cannot favourably compete with these foreign banks because due to the subsidies they get from government and we have lost many of our customers to them".

Besides, the finding from the study also showed that majority (32, 54.2%) of the respondents strongly agreed that Government involvement in banking is important, 17 (28.8%) agreed, 3 (5.1%) were not sure and disagreed respectively while 3 (5.1%) of the respondents strongly disagreed. it is important in the sense that government regulates their conduct and the way they offer their services. One of the key informants had this to say:

"Those private banks are more prone to crisis and excessive ownership may limit access to credit to many parts of society and also government has the capacity to allocate capital to certain investments and thus its involvement is very vital".

When asked whether foreign bank ownership in a host market may obstruct development, 7 (11.8%) of the respondents strongly agreed, 14 (23.7%) agreed, 13 (22.1%) were not sure, 4(6.8%) disagreed while 19 (32.2%) strongly disagreed. Majority of the respondents disagreed with the fact that foreign banks do obstruct development simply because their coming has led to creation of employment opportunities and forced domestic banks to improve on their services. One of the respondents said that:

"*Actually their coming has helped us and the economy at large, given the fact that this has at least helped to eradicate the inefficiencies that originally characterized the financial sector".*

20 (33.9%) of the respondents constituting the majority agreed that Listed banks on stock exchange perform better, 16 (27.1%) strongly agreed, 10 (17%) were not sure, 6 (10.1%) disagreed while 7 (11.9%) strongly disagreed.

4.4 Correlation Analysis

The relationships between study variables are established by running a correlation analysis and since the study had relationship objectives, the relationship between the study variables of corporate governance components of board size, board composition, CEO reputation, and ownership structures on financial performance were established using Pearson's correlation. The results of the correlation analysis are indicated in table 11 below.

Table 11: Showing the Relationship between Study Variables

	1	2	3	4	5	6
Corporate Governance (1)	1.000					
Board Size (2)	.333**	1.000				
Board Composition (3)	.453**	. 289**	1.000			
CEO Reputation (4)	.458**	.334**	.427**	1.000		
Ownership Structures (5)	.557**	.526**	.507**	.406**	1.000	
Financial Performance (6)	**.584****	**.453****	**. 289****	**.420****	**.455****	1.000

** Correlation is significant at the 0.01 level (1-tailed).

4.4.1 Relationship between Board Size and Financial Performance

Pearson's correlation results from table 11 above, showed the relationship between board size and financial performance. The Pearson coefficient ($r =$ **0.453**,** $p = 0.00<0.01$) shows that the result is positive, hence a positive association. The correlation results showed that board size is a significant predicator of financial performance. This implied that a larger board size with more members leads to better financial performance.

Hypothesis One:

Null hypothesis:

Ho: Board size has no significant positive relationship with financial performance.

Alternate hypothesis:

H1: There is a significant positive relationship between board size and financial performance.

α level: $\alpha = 0.01$.

The hypothesis was tested using Pearson's coefficient of rank correlation and the results are shown in table 11. It shows that there is a significant positive relationship between board size and financial performance of Housing finance bank ($r = 0.453^{**}$, $p = 0.00<0.01$). Since the correlation was found to be significant, the null hypothesis (Ho) was rejected and the alternate hypothesis (H1) which recognizes the existence of significant relationship between board size and financial performance was accepted as summarized in table 11.

4.4.2 Relationship between Board Composition and Financial Performance

Pearson's correlation results from table 11 above, showed the relationship between board composition and financial performance. The Pearson coefficient (r = **0.289****, p = 0.00<0.01) shows that the result is positive and, hence a positive but weak association. The correlation results showed that board composition is not a significant predicator of financial performance through its weak association. Thus, although board composition is a predictor of financial performance, the prediction power is weak, meaning that board composition does not have a very strong impact on financial performance.

Hypothesis Two:

Null hypothesis:

Ho: Board composition has no significant positive relationship with financial performance.

Alternate hypothesis:

H2: There is a significant positive relationship between board composition and financial Performance.

α level: α = 0.01.

The hypothesis was tested using Pearson's coefficient of rank correlation and the results are shown in table 11. It shows that there is a significant positive relationship between board composition and financial performance of Housing finance bank, though weak (r = 0.289**, p = 0.00<0.01). Since the correlation was found to be significant, the null hypothesis (Ho) was rejected and the alternate hypothesis (H2) which recognizes the existence of significant relationship between board composition and financial performance, though weak was accepted as summarized in table 11.

4.4.3 Relationship between CEO Reputation and Financial Performance

Pearson's correlation results from table 11 above, showed the relationship between CEO reputation and financial performance. The Pearson coefficient ($r =$ **0.420****, $p = 0.00<0.01$) shows that the result is positive, hence a positive association. The correlation results showed that CEO reputation is a significant predicator of financial performance. This is therefore an indication that a positive CEO reputation will greatly contribute financial performance.

Hypothesis Three:

Null hypothesis:

Ho: *CEO reputation has no significant positive relationship with financial performance.*

Alternate hypothesis:

H3: *There is a significant positive relationship between CEO reputation and financial Performance.*

α level: $\alpha = 0.01$.

The hypothesis was tested using Pearson's coefficient of rank correlation and the results are shown in table 11. It shows that there is a significant positive relationship between CEO reputation and financial performance of Housing finance bank ($r = 0.420^{**}$, $p = 0.00<0.01$). Since the correlation was found to be significant, the null hypothesis (Ho) was rejected and the alternate hypothesis (H1) which recognizes the existence of significant relationship between CEO reputation and financial performance was accepted as summarized in table 11.

4.4.4 Relationship between Ownership Structure and Financial Performance

Pearson's correlation results from table 11 above, showed the relationship between employee attitude and financial performance. The Pearson coefficient ($r =$ **0.455****, $p = 0.00<0.01$) shows that the result is positive, hence a positive association. The correlation results showed that ownership structure is a significant predicator of financial performance. This is therefore an indication that a positive ownership structure will greatly and positively influence performance and the reverse is also true.

Hypothesis Four:

Null hypothesis:

Ho: *Attitude has no significant positive relationship with financial performance.*

Alternate hypothesis:

H4: *There is a significant positive relationship between attitude and financial performance.*

α level: $\alpha = 0.01$.

The hypothesis was tested using Pearson's coefficient of rank correlation and the results are shown in table 11. It shows that there is a significant positive relationship between ownership structure and financial performance of Housing finance bank ($r = 0.455^{**}$, $p = 0.00<0.01$). Since the correlation was found to be significant, the null hypothesis (Ho) was rejected and the alternate hypothesis (H1) which recognizes the existence of significant relationship between ownership structure and financial performance was accepted as summarized in table 11.

4.5 Regression Analysis

Multiple regression analysis was used to find out the influence of the independent variable on the dependent variable. The independent variable considered was corporate governance and the dependent variable considered was financial performance. Table 12 below presents the regression model of the variables under study.

Table 12: Regression of Corporate Governance with Financial Performance

Coefficients (a)						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	**(Constant)**	-.350	.714		-.490	.626
	Board Size	945	.082	.466	4.590	.000
	Board Composition	.471	.103	.431	.411	.000
	CEO Reputation	.622	.182	.420	3.409	.001
	Ownership structures	.426	.186	.455	2.288	.026
a Dependent Variable: Financial Performance						

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.607(a)	**.370**	.364	.84321

Source: Primary data

From table 12 above, the regression result showed that about 36% of the variations in financial performance of Housing finance bank is explained by corporate governance comprising of board size, board composition, CEO reputation, and ownership structures. This means that about 64%

of the variations in financial performance of Housing finance bank remains unexplained by this current research.

4.6 Conclusion

The researcher found out from analyzing the data that corporate governance of commercial banks is important in the financial performance of Housing Finance Bank. The role of regulatory body (BOU) was also found to contribute to a better financial performance by ensuring adherence to corporate governance principles. The researcher also adduced that there is an unalienable relationship between corporate governance and financial performance of commercial banks.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the study, discussion of the findings, conclusion and recommendation. The chapter also shows the limitations of the study and areas suggested for further research. The discussion and conclusions are drawn from the research findings obtained from primary and secondary data.

5.1 Summary of the Findings

5.1.1 Board Size and Financial Performance

The first objective was to examine the relationship between board size and financial performance of Housing finance bank. The study findings on the first objective using Pearson's correlation approach ($r =$ **0.453**,** $p = 0.00<0.01$) showed that there is a significant positive relationship between board size and financial performance.

5.1.2 Board Composition and Financial Performance

The second objective was to examine the relationship between board composition and financial performance of Housing finance bank. The study findings on the second objective using Pearson's correlation approach ($r = \mathbf{0.289}^{**}$, $p = 0.00<0.01$) showed that there is a significant weak positive relationship between board composition and financial performance.

5.1.3 CEO Reputation and Financial Performance

The third objective was to examine the relationship between CEO reputation and financial performance of Housing finance bank. The study findings on the third objective using Pearson's correlation approach ($r = \mathbf{0.420^{**}}$, $p = 0.00<0.01$) showed that there is a significant positive relationship between CEO reputation and financial performance.

5.1.4 Ownership Structures and Financial Performance

The fourth objective was to examine the relationship between ownership structures and financial performance of Housing finance bank. The study findings on the fourth objective using Pearson's correlation approach ($r = \mathbf{0.455^{**}}$, $p = 0.00<0.01$) showed that there was a significant positive relationship between ownership structures and financial performance.

5.2 Discussion of Research Findings

The discussion of the research findings was guided by the objectives of the study in comparison with the reviewed literature.

5.2.1 Board Size and Financial Performance

This finding is in line with Jensen (1993) who argued that as board size increases, board's ability to monitor management decreases as most members have their own companies to run and have little or no time to perform a better overseer function. Similarly, Hermalin and Weisbach (2003) argue that consensus among economic literature is that large boards will weaken a company's performance.

On the other hand, findings from a Mak and Yalanto (2003), using a sample study from Malaysia/Singapore study; found that company performance is highest when board size is small in size. Sanda et al., (2003), in a Nigerian study seems to agree that small boards contribute to a better performance as coordination and decision making becomes less lengthy and less time consuming. Lastly Mak and Kusnadi (2005) also affirm that small boards have a positive relation with high performance. Some previous empirical studies on board size seem to suggest a similar conclusion that a negative relationship exists between large board size and firm performance. The notion widely held is that substantive discussion on major issues is insufficient and the board decision can easily be hijacked by those with self-interest.

5.2.2 Board Composition and Financial Performance

This finding is in line with statement that, the company board of directors is the chief role of internal governance mechanism charged with overseeing the executive decisions. A board, functions effectively if it is composed of the ‘right people’, has the ‘right attitude’ and approach from the management, external auditors and staff. The board of a private limited liability company can be composed of one or more members while that of a public company should ideally have three member representatives. However both consider the skills, experience and expertise to bring to the board. The larger number should be of independent members (Andersons et al., 2007).

Besides, extant evidence, point to a more active role and independence of directors as they make better monitors. Studies undertaken suggest a better stock returns and operating performance when outside directors hold a significant number of board seats Cornett et al, (2008); Ravina and Sapienza, (2009). Furthermore, Klein, (2002) found a lower presence of abnormal accruals when the board hold more than a majority of outside directors. Studies carried out by Cornett et al (2008); Ravina and Sapienza, (2009) found that independent board members contribute positively to bank performance as they bring little or no personal interest.

Furthermore, Abdullah (2004) analyzed all companies listed on the Main Board of Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) between 1994 and 1996 to investigate the effect of board composition and CEO on company performance (ROA, ROE, EPS and profit margin). In contrast to Rechner and Dalton (1991), he found that board independence and CEO duality did not have any relation to firm performance. He also found that board independence is negatively associated with CEO duality. Thus, firms with CEO duality have lower percentage of outside director. However, he found that Malaysian companies had been dominated by outside director and majority firms practiced non-dual leadership structure.

More so, Dehaene et. al., (2001) also analyzed 122 Belgian companies to verify whether a relationship exist between board composition (number of directors, percentage of outside director, CEO duality) and company performance (ROA and ROE). Their findings indicate a significant positive relationship between percentage of outside director and ROE i.e. the more external director a company has, the better is its performance. They also found a significant positive relationship between CEO duality and ROA i.e. if the CEO is also the Chairman of BOD, the company would show higher ROA.

5.2.3 CEO Reputation and Financial Performance

This finding is in line with the argument that CEO integrity is an integral component of governance mechanism and best practices. Alan Greenspan former chairman Federal Reserve USA aptly stated the importance of the CEO integrity; “Recent transgressions in the financial market, have underscored the fact that one can hardly overstate the importance of a reputation in a market economy”. The CEO reputation is a significant indicator of the performance of a firm. The sensitivity of a money market makes the CEO role more important in steering the financial institution in the right direction. Most recently, the Barclays Bank UK was involved in a scandal of fixing the London inter-bank offered rates known as LIBOR. The CEO and Chairman resigned because of their culpability in the scandal this was in a move to stem the damage it would have on Barclays share on the London stock Exchange among other things.

Furthermore, a dual role of CEO and Chairman is a key characteristic of insider power and considered an indicator of a weak corporate governance mechanism (Larcker et al (2007), Yermack (1996). Traditionally in the US the role of CEO and Chairman has been occupied by a single person, Brickley et al., (1997). This concentration of power however spells doom for most companies as CEO can effectively control the information available to other board members and impede effective monitoring Jensen, (1993). In the past companies that were involved in fraud had a single person holding both positions e.g. Enron, WorldCom, Global crossing. Similarly Beasley et al (1999) found that CEO was involved in 72% of these frauds. Several researches carried out examined the separation of role of CEO and Chairman Board; findings were that Agency problems were higher where the same person occupies the two positions. Carpeto et al., (2005) asserts that the decision to split both roles of CEO and board Chair is associated with positive and significant abnormal returns.

Besides, it is also argued that to a certain extent firm performance can be attributable to the stewardship of CEO and evidence from some researches backs that Hermalin & Weisbach (2003) that suggest that the CEO reputation may affect governance. Performance is a function of many factors and evidence on studies of CEO reputation Vis-à-vis performance is at best mixed. While most company's CEO wield power others are cosmetic tutorial heads. Recent studies have shown governance to be both endogenous and multidimensional e.g. Bhagat & Bolton (2008). Findings in Milbourn (2003), found a positive relation between CEO reputation and stock based pay performance, combined with other findings, they suggest that the reputation of CEO influences tradeoffs between CEO stock based sensitivities and other monitoring mechanisms like board monitoring and shareholder rights up to a certain level of CEO reputation. Researchers are in agreement that there is need to consider an array of corporate governance mechanisms for a complete understanding of the relation of CEO reputation and governance related performance.

5.2.4 Ownership Structure and Financial Performance

This finding is in support of the statement that the structural and organization between foreign banks, private owned, and government owned or partially owned present different implications, challenges for differences in cost structures, scale and scope of economies. These ownership structures present different challenges and opportunities. Research that followed Jensen and Meckling (1976) work looks at the impact of ownership structure, Eldenburg et al, (2004) stated that differences across ownership types will be associated with differences in board objectives and governance.

Besides, Arun and Turner (2004) discussed the corporate governance of banking institutions in developing economies. Based on their findings on corporate governance of banks, they suggest that banking reforms can only be fully implemented once a prudential regulatory system is put in place. One of the key reforms they highlight is the privatization of banks. They also suggest that corporate governance of reforms maybe a prerequisite for the successful divestiture of government ownership. It is believed that increased competition resulting from entry of foreign banks may improve the corporate governance of developing economies banks.

Furthermore, following the 2002 World Development Report, Boubakri et al (2002) advances three arguments justifying state over private ownership of banks. Those private banks are more prone to crisis and excessive ownership may limit access to credit to many parts of society and also government has the capacity to allocate capital to certain investments. Two theories have since emerged advanced for government participation in the financial market namely; the Development view and the Political view. The development view suggest that in some countries economic institutions are not well developed, government ownership of strategic economic sector such as banks is important to jump start both financial and economic development hence fostering growth. The political view suggest that government ownership in most developing countries acquire banks and other enterprises to provide employment, to benefit supporters in return for votes, campaign contributions and bribes. Such approach is common in developing economies with a poorly developed financial sector. The development view however, government finances projects that socially desirable. In both views, the government finances projects that would not get privately financed (La Porta et al, 2002).

However, while such arguments present valid reasons, recent research point to the cost of government ownership of bank's having a depressing impact on overall growth. (La Porta et al, 2002). There is a negative correlation between the share of sector assets in state banks and country's per capita income level. Greater state ownership tends to be associated with lower efficiency, less savings and lower productivity (Barth et al 2000). Even government residual ownership is likely to have an effect on performance (Boubakri et al 2002); (Littlechild 1981). Majority of privately owned banks have a positive correlation with superior performance (Lang & So 2002), Cornett et al (2000).

5.3 Conclusions

5.3.1 Board Size and Financial Performance

Findings show a significant positive relationship between board size and financial performance in the bank. As board size increases, board's ability to monitor management decreases as most members have their own companies to run and have little or no time to perform a better overseer function. From the research gathered a small board significantly contributes to a higher company performance, there fore the researcher suggests that Finance bank retains a small sizeable board.

5.3.2 Board Composition and Financial Performance

Findings show a significant positive relationship between board composition and financial performance in the bank, though weak. Board of directors is the chief role of internal governance mechanism charged with overseeing the executive decisions. A board, functions effectively if it is composed of the 'right people', has the 'right attitude' and approach from the management, external auditors and staff. The board of a private limited liability company can be composed of one or more members while that of a public company should ideally have three member representatives. In conclusion, even those the positive relationship from the study was weak, Housing Finance bank needs to have a board with people with expertise in running companies.

5.3.3 CEO Reputation and Financial Performance

Findings show a significant positive relationship between CEO reputation and financial performance in the bank. CEO integrity is an integral component of governance mechanism and best practices. The CEO reputation is a significant indicator of the performance of a firm. The sensitivity of a money market makes the CEO role more important in steering the financial institution in the right direction.

5.3.4 Ownership Structure and Financial Performance

Findings show a significant positive relationship between ownership structure and financial performance in the bank. Structural and organization between foreign banks, private owned, and government owned or partially owned present different implications, challenges for differences in cost structures, scale and scope of economies. The difference in performance is as a result of different governance structures and monitoring.

5.4 Recommendations

5.3.1 Board Size and Financial Performance

In reference to objective one of the study, board size is an important factor in determining corporate governance level of the banking sector, thus there is always need to assess board's ability to monitor management as most members have their own companies to run and have little or no time to perform a better overseer function. The researcher would recommend to Housing finance bank manangement to adhere to principles of corporate governance and choose a small board of directors not above ten in number.

5.3.2 Board Composition and Financial Performance

According to objective two, board of directors is the chief role of internal governance mechanism charged with overseeing the executive decisions. There is need for board to be composed of the right people, with the right attitude. Board composition should include external auditors, and or with at least three member representatives from within the company.the researcher from findings of this research recommends a board with majority of independent members and Housing Finance Bank should vet the board candidates for intergrity and business acumen inorder to steer the company into the right direction.

5.3.3 CEO Reputation and Financial Performance

Based on objective three, CEO integrity is an integral component of governance mechanism and best practices. The CEO reputation is a significant indicator of the performance of a firm. Therefore, this should be considered before hiring a CEO within any firm. The role of a CEO cannot be underscored as it is critical for the image and intergrity of the company. The banking sector is one of the key sensitive sectors so the researcher would advise that in choosing a CEO the bank should choose an experienced administrator with an impeccable track record through a proper recruitment process.

5.3.4 Ownership Structure and Financial Performance

In reference to objective four of the study, the structure of firms comprising of both foreign banks, private owned, and government owned or partially owned present different implications, challenges for differences in cost structures, scale and scope of economies. Therefore, these ownership structures should be considered by the bank in setting its operational strategies.

5.5 Limitations and Contributions of the Study

This study was limited to only one commercial bank .i.e. Housing finance bank, thus leaving out other commercial banks, hence the study findings cannot be generalized to other commercial banks in Uganda.

Besides, this study focused only on commercial bank among the other players within the financial market, thus the study result might be limited in explaining the study variables in relations to other financial institutions such as insurance companies, credit institutions, and microfinance institutions.

5.6 Areas for Further Research

Further studies could be conducted to include other financial institutions such as credit institutions, microfinance institutions, and insurance companies.

Since the major independent variable was corporate governance, it could also be useful to carry out further study to investigate the competencies level of the board of directors of the banks.

Besides, the self-efficacy of the board members of the banks could also be investigated in further studies in order to broaden the scope of this research.

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APPENDICES

Appendix 1: QUESTIONNAIRE

Corporate governance and financial performance of commercial banks in Uganda. A case study of Housing Finance Bank Uganda.

Dear Respondent,
My name is Abaasa Phionah, a student at Uganda Management Institute, undertaking a study in fulfilment of the requirements for the award of a Master's Degree in Management studies (Project Planning and Management).
This questionnaire is intended to help me get information on how corporate governance influences the financial Performance of commercial banks using a case study of Housing Finance Bank. The purpose is purely academic and to contribute to literature on the need for Corporate Governance reforms. Kindly fill the questionnaire to enable me Complete the study.
Please tick the appropriate.

Bio Data

1. What is your Gender? ....

2. Position Held…………………………………………………………

3. Highest Level of Education
a. PHD b. Masters c. Degree d. Diploma e. Others

4. How long have you worked with Housing Finance Bank?
a. Less than a Year ☐

b. 1-3 Years ☐

c. 4-6 Years ☐

d. 7+ Years ☐

SECTION B: INDEPENDENT VARIABLE: CORPORATE GOVERNANCE.
For questions 1-41 please indicate your response by ticking the appropriate choice of answer.

KEY TABLE

5	4	3	2	1
Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

A	Board Size	5	4	3	2	1
1	Board members understand their responsibilities					
2	Board and sub committee meetings conducted regularly					
3	Corporate governance of banks needs special attention in comparison with other listed companies					
4	Board size contributes greatly to firm value					
5	Small boards are beneficial to high performance					
6	Limiting board size improves performance of the bank					
7	A large board is a characteristic of weak corporate governance.					
8	Board size increase, affects monitoring of management.					
B	**Board Composition**					
9	Director's independence increases decision making					
10	The board with higher number of non-executive directors suggest better performance					
11	Higher number of Executive directors affect board performance					
12	Independent directors make better monitors					
13	Managerial inefficiency are a result of weak governance					
C	**CEO Reputation**					
14	A dual role of CEO and Chairman is related to insider power.					
15	The role of CEO and Chairman should be held by a single person.					
16	Agency Problems arise with duality of CEO and Chairman's role.					
17	Split role of CEO and Chairman suggests better governance.					
18	The bank has specific written procedures/polices in regard to corporate governance					
D	**Ownership Structure**					
19	Foreign ownership impacts positively on bank profitability					
20	Foreign banks offer lower interest margins					
21	Government involvement in banking is important					
22	Foreign bank ownership in a host market may obstruct development					
23	Listed Bank's on Stock Exchange perform better					
	Financial Performance					
24	The Bank meets its targets consistently					
25	Departments consistently meet their targets					
26	The bank rewards employees who mitigate fraud					
27	Bonuses and incentives are given for meeting targets					
28	Annual excellent performance is rewarded for individual performers					
29	There is transparency in financial reporting					
30	The bank discloses its financial performance to public and its shareholders					
31	Performance appraisals are carried out in the bank to assess output and profitability					
32	There is regular trainings carried out to equip staff with cutting edge business knowledge					
33	The 13th cheque is given to employees to motivate and appreciate					

	good performance					
34	Measured performance of organizational units or groups of staff used to pay bonuses to the staff					
35	Evaluation of performance has an effect on the pay of individuals					
36	Department allocation of resources is more or less directly linked to units of performance					
37	Service standards have been used to define the level of service the clients are entitled to receive.					

Appendix 2: Observation checklist

Behavior to be observed	**comment**
1.Body Language	
2.Articulateness of answers	
3. Alertness at work	
4.Gender Balance	
5.interpersonal skill	
6. Working Environment	
7. Speed in business operation	
8. Acurateness	

Appendix 3: Structured Interview guide

1. Department…………………………………………….
2. Title……………………………………………………

Corporate Governance

1. What is the size of your board?...
2. What is the board composition?...
3. How often are board members rotated?...
4. How are the public kept informed of company information?..
5. What type of information can be disclosed to the public pursuant to the information disclosure policy?..
6. Does the organization board vet the appointment of the CEO?...
7. Do the board and relevant sub committees have clearly defined roles?......................................
8. Does the Company differentiate between what the board can do and what managers and employees can do?..

Performance

1. How is the performance of the board/sub committees/management reviewed?..................
2. What are your departmental targets? ………………………………………………………
3. Do you give incentives and bonuses to employees who perform exceptionally?................
4. What is your market niche? …………………………………………………
5. How is it ensured that only individuals with right skills and attitude are selected?..
6. How do you measure risk in your organization……………………………………………
7. What parameters have you set to guard against fraud?...
8. Do you think most senior management of your bank have the necessary skills to manage the business under their supervision and have appropriate control over the key individuals in these areas?..