

**THE EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE
OF COMMERCIAL BANKS IN UGANDA**

A case of Housing Finance Bank

JAMES CALVIN ODEKE

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DECLARATION

I ODEKE JAMES CALVIN, declare that I am the sole author of this research proposal, and that this material has never been submitted wholly or partly for any other award. This research proposal is a result of my own research work, and where other people's research was used, they have been dully acknowledged.

Signature..... *James Calvin Odeke*..... Date..... *29/07/2023*.....

APPROVAL

This research report was prepared under my guidance and it is hereby submitted for examination with my approval

Signature.......... Date.....*29th July, 2023*.....

Dr. MUGISHA HENRY

University Supervisor

LIST OF ACRONYMS AND ABBREVIATIONS

BOU: BANK OF UGANDA

CEO: CHIEF EXECUTIVE 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

UCU: UGANDA CHRISTIAN UNIVERSITY

USA: UNITED STATES OF AMERICA

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ABSTRACT

Corporate governance plays a pivotal role in shaping the financial performance of commercial banks, ensuring transparency, accountability and long-term sustainability. This dissertation explores the relationship between corporate governance and financial performance of Housing Finance Bank, one of Uganda's most prominent financial institutions. The study specifically examines the impact of board size, board composition, and CEO reputation on the bank's financial performance.

To achieve the research objective, a mixed- method research approach is employed, combining both quantitative and qualitative techniques. The quantitative analysis involves the collection of financial data and governance metrics over a specified period, allowing for evaluation of correlations and trends. Concurrently, qualitative data is gathered through interviews with key stakeholders, such as board members, senior executives, and regulators, to gain valuable insights into the decision- making processes and governance practices.

The findings reveal significant implications of corporate governance on Housing Finance Bank's financial performance. First, the study indicates that an optimal board size has a positive influence on the bank's profitability and overall financial health. An appropriate composed board, consisting of diverse expertise and independent directors, enhances the board's oversight function, leading to improved risk management and strategic decision-making.

Moreover, CEO reputation emerges as a crucial determinant of the bank's financial success. A well-respected CEO fosters investor confidence, attracts investment, and positively impacts the bank's performance in the market. Furthermore, the study uncovers the importance of the board's active engagement in setting clear performance targets and incentives, as this fosters an environment of accountability and drives performance- oriented culture within the organization.

This study contributes to the existing literature by shedding light on the relationship between corporate governance and financial performance within the context of Ugandan banking sector. The findings underscore the critical role of board size, board composition, and CEO reputation in shaping the financial trajectory of commercial banks, offering valuable insights for

policymakers, investors, and banking institutions seeking to enhance corporate governance practices and overall performance.

CHAPTER ONE

1.1 Introduction

The chapter provides a general overview of the potential effects of corporate governance on the financial success of commercial banks in Uganda. Corporate governance is an independent variable in this study, whereas the dependent variable is financial performance. This chapter displays the problem statement, research questions, hypothesis, significance, the study's scope, justification, and operational definitions of terms and concepts, all in relation to the study variables previously mentioned. The historical, theoretical, conceptual, and contextual background.

1.2 Background of the Study

1.2.1 Historical background

There has never been a comprehensive historical treatment of corporate governance, considering the size of the topic. Since the introduction of the corporate form established a potential for conflict between the investor and the management, corporate governance has existed (Dakhlallah et al., 2018). The East Indian Company, the Hudson Bay Company, the Levant Company, and other significant chartered corporations from the 16th and 17th centuries are just a few examples of early examples of corporate governance. It is a difficult undertaking to address all pertinent issues with corporate governance in a methodical manner (Morck, 2005). In the USA, corporate governance rose to popularity in the 1970s. 25 years after its initial debut, it became a household name. Academics, government officials, business leaders, and investors are debating this issue globally. Following World War II, the US saw a boom in the economy and increased corporate size. Despite the fact that this growth was accompanied by wealth, internal corporate governance was not a priority (Cheffins, 2009). But when the 20th century came to an end, corporate governance had "taken center stage." As the 2000s got under way, perceptions drastically changed. A The worldwide recession, which drove numerous US large firms to go into

foreclosure, and the end of the "dot Com" period, which was fueled by scandals that shook the industry, both caused a dramatic decrease in the stock market. Major publicly traded corporations like Enron and WorldCom tarnished corporate governance in the US and forced practitioners, regulators, and investors to start again (Cheffins, 2000). Despite setbacks in the financial market, corporate governance is firmly established in the management of public and private listed companies and is a topic of intense research in the industry. In light of recent financial accounting scandals that have rocked the world, improved corporate governance practices are now essential globally.

The Organization for Economic Cooperation and Development (OECD) principles, first published in 1999, the Sarbanes-Oxley Act of 2002, and "Modernizing Company Law and Enhancing Corporate Governance in European Union- A Plan to Move Forward by European Commission on March 21, 2003" are just a few examples of the strict governance reforms that have been implemented in an effort to protect investors and stabilize global capital markets.

Reforms in emerging countries are intended to foster growth and economic globalization. Corporate governance reforms, when combined with liberalizing reforms, effectively offer a new development strategy for third-world countries. Corporate governance comes in a variety of forms, including US, European, Asian, market-based, stakeholder-based, and other state-leaning systems. The value of transparency, integrity, and accountability is universal, regardless of the chosen methods of corporate governance (Cheffins, 2009). The study of Berle and Means ,1932 received widespread acclaim and offered important insights into interactions inside organizations. They thought there might be separating firm owners from their managers, and that this division necessitates that the two parties be bound by a legal contract and bond. Their reasoning went on to argue that this separation is partially caused by the growth in the size of corporations since, as companies grow larger, owners are less likely to be involved in the day-to-day operations of the company. The works of (Coarse, 1936), (Jensen and Meckling, 1976), and (Fama, 1980) on the potential for conflicts of interest between shareholders and management, representing the Principals and Agents, respectively, were the ones that actually started the conversation on corporate governance despite the fact that their observations should have brought attention to the issues of governance in organizations. Even then, the phrase was not

specifically employed in analysis. It didn't appear as the title of a study until 1983's *Perspectives on Management* (Earl, 1983).

Despite the term's frequent and extensive use recently, no consensus on its definition exists. (Razaee, 2009), maybe as a result of the term's cross-disciplinary nature. Both professionally and academically, it is frequently utilized the increased attention to corporate governance, we are indeed seeing the resurgence of old problems in industrial groups due to governance challenges. This is demonstrated by the methods of (Berle and Means, 1932), which were based on Alfred Marshall's research on the connection between shareholders and management (Marshall, 1922). Even Adam Smith asserted that there is a great deal of alienation between stakeholders and managers, and thus he said: "It cannot well be expected that the directors of companies will watch over it with the same anxious vigilance with which partners in a private company frequently watch over their own" (Smith, 1877). This is because directors are managers of other people's money rather than their own. Many institutions, including Bank of Uganda, The Institute of Corporate Governance of Uganda, and the Capital Markets Authority (CMA), have worked to improve corporate governance in Uganda. As a basic requirement for sound corporate governance practices for public firms and issuers of corporate debt in Uganda, the CMA developed guidelines in February 2003 (CMA, 2003). Accountability, openness, and moral behavior are all important aspects of corporate governance. In an effort to strengthen the institutional and regulatory framework for enhancing corporate governance in institutions like banks and other financial markets, multilateral organizations such as the Organization for Economic Cooperation and Development (OECD) and the Basel committee on Banking have established international standards and guidelines on corporate governance (Kibirango, 2002).

1.2.2 Theoretical background

The agency and stakeholder theories serve as the foundation for this investigation. The agency theory concentrated on issues with the division of ownership and control. Jensen and Meckling (1976), principal agency theory proponents, claim that the theory entails a contract between agent (director) and principal (shareholder). It is anticipated that the agent will not always have the interests of the shareholder at heart (director), who is more knowledgeable about the entity/corporation and the Principle (shareholder). According to the agency theory, opportunism on the side of the agent and enforced compliance do not have a national limit and instead serve

as a transnational lens for assessing corporate governance issues (Lubatkin, 2005). Well-known agency issues brought on by the separation of ownership and management continue to exist in businesses today. According to recent studies, companies typically perform poorly when they have more agency issues. One of the key ways to address agency issues, in our opinion, is through an effective governance structure. The ownership structure, the makeup and size of the board of directors, and occasionally the CEO's reputation are aspects of corporate governance that are discussed in literature. Due to variations in ownership structures, boards of directors have different makeups. According to (Eldenburger et al. 2004), the board's makeup influences the extent of the CEO's oversight (Weisbach, 1987), and the size of the board is inversely related to the value of the firm because large boards are associated with inefficient asset usage and lower profits (Yermack, 1996).

Additional theories are required to explain what, if anything, causes the interests of the primary agent to be aligned, even while Agency Theory tackles manager principle interest divergence. According to Donaldson and Davis 1989, the stewardship theory can be used to define relationships based on behavioral principles. According to the stewardship hypothesis, managers should be stewards whose motivations are in line with the goals of their principles rather than being driven by personal interests. From a legal standpoint, the proponents of this approach contend that while directors must take into account the interests of clients, staff members, suppliers, and other legal shareholders, their primary duty is to shareholders.

On the other hand, the stakeholder theory has gained support due to its accurate descriptors, effectiveness as a tool, and normative validity. These structures are separate even though they are connected. The notion that the managers of the unit are fiduciaries for it and not just for its individual members that they are... trustees for an institution (with multiple constituents) instead of attorney for the stockholders is reality and not just legal fiction, according to (Dodd, 1932). The stakeholder theory is viewed by some academics as a viable framework for the development of social science-based research, while it is also seen by others as a catch-all name for a variety of class narrative perspectives, each of which is based on its own moral tenets. However, this theory's proponents contend that managers must consider stakeholders' interests while making choices. The goal is to maximize value, which is one of the main goals of corporate governance.

In conclusion, managing businesses is a dynamic process, and each theory developed has something to offer in terms of corporate governance. However, what stands out most clearly is the understanding that there is a relationship between managers and business owners, and it is for that reason that this study will concentrate on the principle agent theory. According to these ideas, effective governance structures are needed to enable owners to oversee and supervise managers. (Berle and Means, 1991). In this corporate governance approach, the market serves as the focal point. However, the Agency Theory currently rules the theoretical debates on corporate governance, while it does not completely cover all of the topics. The stewardship theory, on the other hand, makes the assumption that managers are naturally good business stewards and can be relied upon to work tirelessly to achieve high levels of company profitability and shareholder return. Ironically, this premise leads to the end conclusion that stakeholder advisory boards are sufficient in place of boards of directors.

1.2.3 Conceptual background

Corporate governance refers to a wide range of systems and mechanisms that control how important decisions are made in organizations, including the rules and procedures that the board of directors and shareholders follow to run their own affairs and fulfill their obligations to investors. Corporate governance is fundamentally about taking responsibility, making decisions, and abiding by the law. Various definitions have been put out, but it appears that there is no one definitive definition of corporate governance justice because it applies to various fields, including law, the humanities, and behavioral science. These are a few explanations or descriptions of what corporate governance entails (La Porta and colleagues, 2000). Corporate governance is a multifaceted concept that includes firm leadership, board size and makeup, company brand principles, power balance, disclosure, and adherence to legal requirements and industry best practices. (2005) Larker and Richardson. By establishing structures, processes, and norms for decision-making, corporate governance serves to direct and regulate the company's operations. But the most divisive topics in corporate governance center on addressing the questions, "on whose behalf? And for what purpose? Corporate directors have a fiduciary obligation to uphold the corporation's interests at all times (Black, 1999).

A system of direction and control for business entities is called corporate governance. In addition to outlining the rules and procedures for making decisions regarding corporate affairs, it is the

structure that specifies the allocation of rights and responsibilities among various stakeholders in the corporation, including the Board, Managers, Shareholders, and other stakeholders. In doing so, it provides the frameworks through which the company's goals are set, attained, and performance is tracked (OECD, 2009). Therefore, corporate governance structure provides the foundation for setting and achieving company goals and ensures that correct and timely information is provided regarding a firm's financial performance (OECD, 2005). For businesses to succeed, managers are essential. They are assisted in achieving these goals by capable managers in an efficient and productive manner.

(Abdulai et al., 2020) asserts that improved corporate governance and management lead to changes in how well businesses operate financially. The management group of a company is in charge of making the most crucial choices that affect corporate performance. The performance of a company is significantly impacted by financial decisions (Mursalim et al., 2015). According to Penrose, 2007, a corporation may generate rents not because it has better resources, but rather because it utilizes those resources more effectively. Through entrepreneurship, innovation, development, and exploration, good corporate governance adds value while providing responsibility and control structures that are proportionate to the risks involved. According to established standards and targets for each aim, financial performance serves as a gauge of how well an organization is doing in terms of achieving its goals (Parvin et al., 2020). It affects the firm's profitability, capital sufficiency, asset quality, and liquidity available for business operations. According to Gompers et al. (2003), companies with robust shareholder rights are valued higher and have better earnings and sales growth. Additionally, the three key components of corporate governance productivity, disclosure, and sustainability can exert pressure on financial performance. (Shleifer & Vishny, 1997), (Laporta et al., 1998). In light of this, this study will look at many aspects of corporate governance, including CEO reputation, ownership structure, board size, and board makeup.

1.2.4 Contextual Background

Corporate governance and financial performance of corporations are receiving more attention as a result of the decline in investor trust brought on by widespread global company failures. The recent financial scandals in the United States involving firms like Enron and WorldCom, according to the OECD (2005), were largely caused by shareholders' inadequate management

oversight, which allowed managers to enrich themselves at the expense of the owners whose interests they were supposed to protect.

The necessity of providing business executives with the information and abilities necessary to carry out their leadership obligations in order to contribute to Uganda's economic progress underlies the significance of improving corporate governance. Many times, the experiences with bank failures and other corporate disasters have been linked to governance. Issues with corporate governance are also a contributing factor in Uganda's very short business lifecycle. Additionally, a lot of enterprises in the private sector are run by families, and when people are appointed to boards, little thought is given to their technical expertise, competence, and moral character. As illustrated by the international credit bank (ICB) owned by the Katto family, many board members as a result have a poor understanding of their duties and the ramifications for the investment portfolios that have been entrusted to them. Additionally, there were cases involving Cooperative Bank and National Bank of Commerce.

Commercial banks in Uganda have been performing well over the later part of the 2000s despite the financial problems. In 1967, the Housing Finance Bank was established. At the time, it dominated 80% of all mortgage lending. National Social Security Fund owns 50% of Housing Finance Bank, followed by the Ugandan government at 45% and National Housing and Construction Company at 5%. It officially obtained a commercial banking license from the Ugandan government's watchdog, Bank of Uganda, in 2008. Despite having a strong financial performance from its beginning, the home finance bank's financial performance varied between the years of 2018 and 2022, according to the data currently available (home Finance Bank Annual Report, 2022).

1.3 Statement of the problem

Multiple instances of bad corporate governance have plagued the commercial banking industry and recently resulted in the liquidation of several banks. The Kato family-run international credit bank (ICB), Greenland Bank, and National Chamber of Commerce all had issues with governance and disregard for ethical business practices. However, the banking industry has experienced a surge in financial growth since the late 2000s as a result of an infusion of foreign owned banks entering the market. This has helped to enhance customer service and boosted competition.

Although the Housing Finance Bank has seen expansion in its operations during the years since its founding in 1967, data now available indicates that it has had inconsistencies in its financial performance over these years. It is still ineffective to deal with issues like open control, accountable corporate boards, shareholder rights, and timely disclosure of meaningful information. Additionally, Housing Finance Bank continues to struggle with ineffective corporate governance structures, which has prevented it from meeting its annual financial performance goals. From 2019 to 2020, its profitability ratio fell from 50% to 30% (Housing Finance Bank Annual Financial Report, 2020). As a result, the purpose of this study is to determine if the corporate governance practices in place are the primary reason for differences in the current financial performance trends displayed by Housing Finance Bank.

1.4 Purpose of the Study

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

1.5 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 executive management (CEO reputation) and financial performance of Housing finance bank

1.6 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?

1.7 Conceptual Framework

The relationship between corporate governance and the financial performance of commercial banks is examined via the conceptual model in figure 1 below. Corporate governance was an independent variable, and financial performance was a dependent variable. The concept demonstrates how a board's size, board composition (makeup), and executive management (reputation as the CEO) effect financial performance in terms of profitability, capital adequacy, and asset quality. The Board is accountable to a variety of stakeholders thanks to a strong corporate governance framework, which also encourages openness (OECD, 2005). The topic of corporate

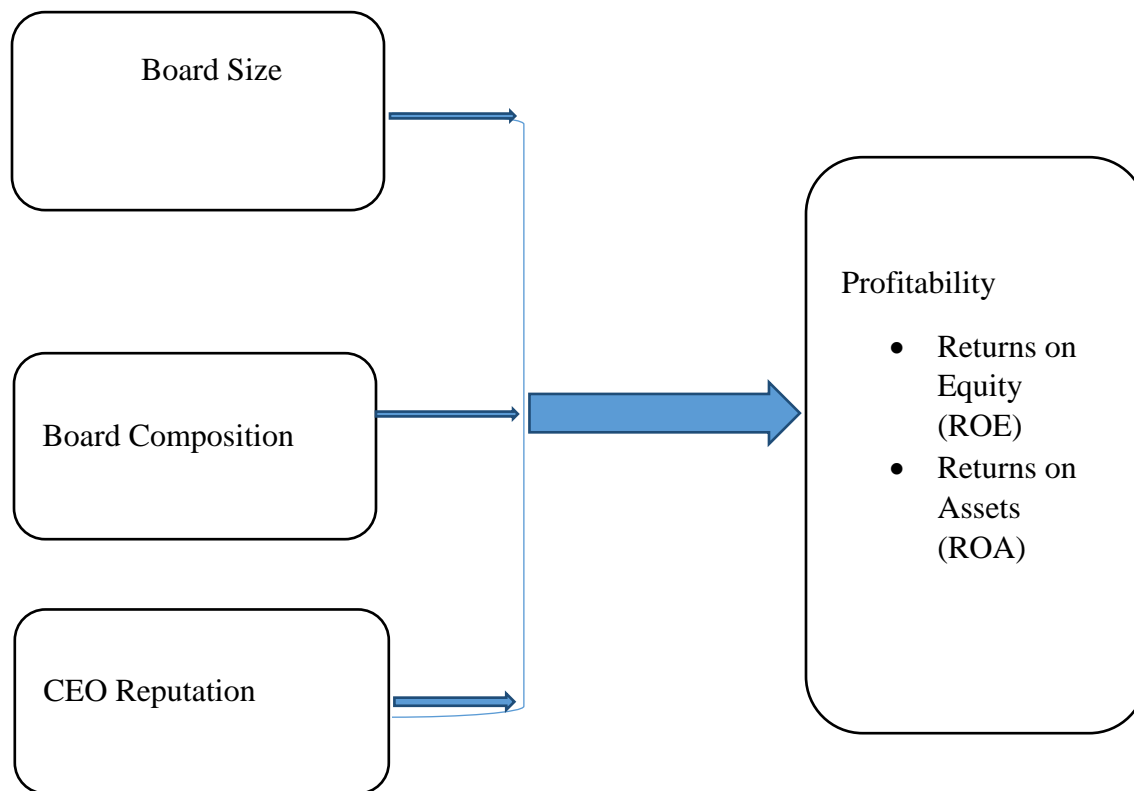
Governance is how all parties interested in the success of the company, or the "stakeholders," try to guarantee that managers and other insiders take actions or implement procedures that protect the interests of the stakeholders. The separation of ownership and management, a crucial component of the contemporary firm (Yermack, 1996), makes such procedures necessary. Numerous owners with no management responsibilities and managers with no ownership stake in the company define a typical business. The number of shareholders, or owners of equity, is typically considerable, and the typical shareholder controls a little part of the company's shares. As a result, this shareholder has a propensity to show no interest in managing managers, who, if left to their own devices, may pursue objectives other than that of equity owners. For instance, although that may not always enhance the firm's profit, the primary concern of the shareholder, the managers may take steps to expand the firm and, frequently, their salary (Sanda et al., 2005). A firm can be considered as a team, according to Fama (1980), whose members understand that in order for the team to survive, they must compete with other teams and that each member's productivity directly affects the team and its members. Each manager therefore has a motivation to keep an eye on the actions of other managers, whether they are superiors or subordinates, inside the company.

Independent variable

Corporate Governance

Dependent Variable

Financial Performance



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

1.8 Scope of the study

1.8.1. Subject Scope

The topic of corporate governance is how all parties interested in the success of the company, or the "stakeholders," try to guarantee that managers and other insiders take actions or implement

procedures that protect the interests of the stakeholders. The separation of ownership and management, a crucial component of the contemporary firm (Yermack, 1996), makes such procedures necessary. Consequently, the study's focus was on the Housing Finance Bank's corporate governance and financial performance.

1.8.2 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.

1.8.3 Time Scope

The study covered the period from 2019 to 2023 because that is when Housing finance bank was experiencing some issues with its corporate governance.

1.9 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.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature reviewed in this chapter is based on the relationship between corporate governance and financial performance of commercial banks in Uganda. The impact of board size, board composition, and CEO reputation on financial performance were all examined. It is primarily based on literature that has been studied in developed nations. In respect to the situation in Uganda, the review of the literature will look at empirical and practical data on the connection between corporate governance and financial performance.

2.2. Theoretical review

The agency and stakeholder theories serve as the foundation for this investigation. The agency theory concentrated on issues with the division of ownership and control. The principal agency theory, according to proponents (Jensen and Meckling., 1976), entails a contract between a principal (the shareholder) and an agent (the director), who has more knowledge of the entity or corporation. It is assumed that the agent won't always have the shareholder's best interests at heart. According to the agency theory, opportunism on the side of the agent and enforced compliance do not have a national limit and instead serve as a transnational lens for assessing corporate governance issues. (Lubatkin, 2005). Well-known agency issues brought on by the separation of ownership and management continue to exist in businesses today. According to recent studies, companies typically perform poorly when they have more agency issues. One of the key ways to address agency issues, in our opinion, is through an effective governance structure. The board composition and size of the board of directors, and occasionally the CEO's reputation are aspects of corporate governance that have been discussed in literature. Due to variations in ownership structures, boards of directors have different makeups. According to Eldenburg et al. (2004), the board's makeup impacts how closely the CEO is monitored (Weisbach, 1987), and the size of the board is inversely related to the value of the firm because large boards tend to result in less effective asset usage and lower profits (Yermack, 1996).

Additional theories are required to explain what, if anything, causes the interests of the primary agent to be aligned, even while Agency Theory tackles manager principle interest divergence.

According to Donaldson and Davis, 1991, the stewardship idea can be used to define relationships based on behavioral precepts. According to the stewardship hypothesis, managers should be stewards whose motivations are in line with the goals of their principles rather than being driven by personal interests. From a legal standpoint, the proponents of this approach contend that while directors must take into account the interests of clients, staff members, suppliers, and other legal shareholders, their primary duty is to shareholders.

On the other hand, the stakeholder theory has gained support due to its accurate descriptors, effectiveness as a tool, and normative validity. These structures are separate even though they are connected. The notion that the managers of the unit are fiduciaries for it and not just for its individual members that they are... trustees for an institution (with multiple constituents) instead of attorney for the stockholders is reality and not just legal fiction, according to Dodd, 1932). The stakeholder theory is viewed by some academics as a viable framework for the development of social science-based research, while it is also seen by others as a catch-all name for a variety of class narrative perspectives, each of which is based on its own moral tenets. However, this theory's proponents contend that managers must consider stakeholders' interests while making choices. The goal is to maximize value, which is one of the main goals of corporate governance.

In conclusion, managing businesses is a dynamic process, and each theory developed has something to offer in terms of corporate governance. However, what stands out most clearly is the understanding that there is a relationship between managers and business owners, and it is for that reason that this study will concentrate on the principle agent theory. According to these ideas, effective governance structures are needed to enable owners to oversee and supervise managers. (Shleifer & Vishny, 1997). In this corporate governance approach, the market serves as the focal point. However, the Agency Theory currently rules the theoretical debates on corporate governance, while it does not completely cover all of the topics. The stewardship theory, on the other hand, makes the assumption that managers are naturally good business stewards and can be relied upon to work tirelessly to achieve high levels of company profitability and shareholder return. Ironically, this premise leads to the conclusion that stakeholder advisory boards are sufficient in place of boards of directors.

2.3 Empirical Review

2.3.1 Corporate Governance and Financial Performance

Corporate governance, according to Barry (2003), is the framework that controls how corporations are run. He claims that corporate governance has an impact on how a firm's goals are established and met, how risk is monitored and evaluated, and how performance is maximized. A good corporation adds value (through innovation, entrepreneurship, development, and exploration) and offers responsibility and control systems that are proportionate to the risks involved. Direction, leadership, and accountability, along with systems and processes, are the main components of corporate governance. The board of directors or other governing body of an organization is responsible for providing direction, leadership, and accountability. Systems and processes are how they carry out their duties. Numerous owners with no management responsibilities and managers with no ownership stake in the company define a typical business.

The number of shareholders, or owners of equity, is typically considerable, and the typical shareholder controls a little part of the company's shares. As a result, this shareholder has a propensity to show no interest in managing managers, who, if left to their own devices, may pursue objectives other than that of equity owners. For instance, the managers may take steps to expand the company and, frequently, their compensation, even if it may not necessarily enhance the firm's profit, which is the primary concern of the shareholder.

Corporate governance issues have a rich history in the literature. The impact of corporate governance mechanisms, such as ownership structure, board composition, ownership of the board and the CEO, CEO salary, and tenure, on firm performance, has been the subject of numerous studies. In order to determine if corporate governance procedures (CEO duality, BOD composition, audit committee) have an impact on performance, valuation, and dividend distribution in family-controlled enterprises, (Chen et al., 2005) conducted an analysis of 412 publicly listed firms in Hong Kong between 1995 and 1998. Three separate variables—ROA, ROE, and market to book ratio—were used to gauge the performance of the company. According to their findings, there is a bad correlation between CEO dualism and performance (measured by the market to book ratio). Even when firm and industry fixed effects were taken into account, the link remained substantial. They came to the conclusion that CEO duality is linked to lower company value, i.e., organizations with mixed structures perform worse.

According to Coles et al. 2001, a large portion of academic research in the field of corporate governance has concentrated on how to create corporate governance systems that will inspire managers to make decisions for the company that will increase performance. However, these studies show contradictory results. According to Coles, there are two major sorts of governance mechanisms: CEO incentive alignment methods, which include CEO remuneration and ownership structure, and organizational monitoring mechanisms, which include leadership structure and board structure.

(Haniffa and Hudaib. 2006) also looked into the connection between two performance measures (Tobin Q and ROA) in Malaysia and six corporate governance factors (board size, board composition, CEO duality, multiple directorship, ownership concentration, and managerial holdings). They looked at 347 companies that were listed on the KLSE between 1996 and 2000.

They discovered a strong correlation between board size and ownership concentration (defined by top 5 considerable shares) and market and accounting performance metrics.

Board size demonstrated a positive link with accounting success but a negative correlation with market performance, showing that the market regards big boards as ineffectual. Big boards therefore contribute to variety, richness, and knowledge within businesses. Additionally, there was a negative relationship between concentrated shareholding and market performance, indicating that businesses with diffused ownership do better on the market. It was correlated favorably with accounting performance. This indicates that Malaysian businesses with concentrated ownership produce better accounting performance. Additionally, they discovered a weak negative correlation between having numerous directorships and market performance, suggesting that when directors do not hold extra directorships, the market performs better. Additionally, they discovered that organizations with a mixed structure had lower accounting performance, indicating that CEO duality has a strong negative link with accounting performance. They came to the conclusion that the insider model of corporate governance is inappropriate for the Malaysian business climate after discovering a significant negative association between managerial ownership and accounting performance. This issue is also linked to Malaysian companies' high levels of pyramiding in cross-ownership.

In addition to Haniffa and Hudaib, (Khatri et al. 2002) conducted an earlier study to look at Malaysia's corporate sector performance (efficiency) and the function of corporate governance

(high leverage and ownership concentration). For the years 1995 to 1999, they fitted a panel dataset of the 31 largest non-financial enterprises listed on the KLSE to a stochastic frontier. Their findings indicate that ownership concentration has a high significance and explanatory power, demonstrating a positive association between inefficiency and a system of cross shareholding and ownership concentration, i.e., inefficient enterprises have a high ownership concentration.

2.3.2 Board size and financial performance

The difficulty of balancing between large and tiny boards grows exponentially as each has its own set of difficulties. Large boards are expected to be advantageous in that the members will provide resources and skills to the company. Boards with a huge number of members, however, have trouble coordinating, being flexible, and making decisions.

According to (Jensen, 1993), when a board grows in size, it becomes less effective in overseeing management because most members are busy running their own businesses and don't have much time to do so. Similar to this, (Hermalin and Weisbach, 2003) contend that huge boards will reduce a company's performance, which is a common theme in economic research.

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

2.3.3 Board Composition and Financial performance

The primary internal governance structure tasked with monitoring executive actions is the board of directors of the corporation. If a board is made up of "the right people," has "the right attitude," and is approached by management, external auditors, and staff, it will work efficiently.

While the board of a public business should ideally have three member representatives, the board of a private limited liability company can be made up of one or more members. Both, however, take into account the abilities, knowledge, and expertise to bring to the board. The majority should consist of independent members, according to (Andersons et al.2007). The goal of recent research findings on new corporate governance regulation frameworks is to make management of businesses more transparent. Additionally, the majority of these policies are created to combat the most serious issues associated with corporate misconduct, including fraud, account fraud, and most importantly hiding risk.

Existing data indicate that directors play a more independent and active role and are therefore better monitors. Studies conducted indicate that when outside directors occupy a sizable number of board seats, stock returns and operating performance improve. (Ravina and Sapienza, 2009); (Cornett et al., 2008). Furthermore, Klein, 2002 discovered a reduced prevalence of improper accruals when the board included more outside directors than the majority. According to studies by Cornett et al. (2008) and Ravina and Sapienza (2009), independent board members improve bank performance since they bring little to no personal interest to the table.

Abdullah. 2004 examined the impact of board composition and the CEO on firm performance (ROA, ROE, EPS, and profit margin) for all companies listed on the Main Board of the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) between 1994 and 1996. He discovered that board independence and CEO duality had no effect on company performance, in contrast to (Rechner and Dalton, 1991). He also discovered a negative relationship between CEO duality and board independence. As a result, companies with dual CEOs have a lower percentage of outside directors. However, he discovered that outside directors had controlled Malaysian businesses, and the majority of them used non-dual leadership structures. In order to determine whether there is a connection between board composition (number of directors, proportion of outside directors, and CEO duality) and firm performance (ROA and ROE), (Dehaene et al., 2001) examined 122 Belgian enterprises. According to their research, there is a strong positive

correlation between the percentage of outside directors and ROE, meaning that a firm performs better the more external directors it has.

Additionally, they discovered a strong positive correlation between CEO duality and ROA, meaning that if the CEO also serves as the BOD chairman, the company will have greater ROA.

2.3.4 CEO Reputation and Financial Performance

Integral to the governance process and best practices is the CEO's integrity. Former Federal Reserve chairman Alan Greenspan succinctly summed up the value of a CEO's integrity: "Recent financial market misdeeds have underscored the fact that one can hardly overstate the importance of a reputation in a market economy." A key predictor of a company's performance is the CEO reputation. The CEO's position is more crucial in guiding the financial organization in the right path because money markets are sensitive. The London inter-bank offered rates, or LIBOR, were fixed in a scandal involving Barclays Bank UK most recently. Due to their involvement in the incident, the CEO and Chairman resigned. This was done, among other things, to mitigate the impact it would have on Barclays' stock price on the London Stock Exchange.

According to (Larcker et al. 2007) and (Yermack, 1996), a dual function of CEO and Chairman is a major aspect of insider power and is a sign of a poor corporate governance system. According to (Brickley et al., 1997), the CEO and chairman positions have traditionally been held by the same individual in the US. The CEO can effectively restrict the information that other board members have access to and obstruct proper monitoring, which spells disaster for the majority of businesses (Jensen, 1993). In the past, fraud-related businesses like Enron, WorldCom, and Global Crossing had a single person holding both responsibilities. Similar to this, Beasley et al. (1999) discovered that 72% of these frauds implicated the CEO. Several studies that were conducted looked at the separation of the CEO and Chairman of the Board roles; the results showed that agency difficulties were more common when the same person held the two posts. According to (Carpeto et al. 2005), the choice to divide the responsibilities of CEO and board chair are linked to favorable and large anomalous returns.

Firm performance can be partly attributed to the CEO's management, and data from various studies supports that. According to (Hermalin & Weisbach 2003), the reputation of the CEO may have an impact on governance. Performance depends on a variety of variables, including

findings from studies on CEO reputation. Performance-wise, it's at best mixed. While the CEOs of most companies exercise authority, some are heads of cosmetic tutorials. Recent research, including (Bhagat & Bolton, 2008), has demonstrated that governance is endogenous and complex. When combined with other findings, the findings from (Milbourn., 2003), which found a positive relationship between CEO reputation and stock-based pay performance, suggest that, up to a certain point, the CEO's reputation influences tradeoffs between CEO stock-based sensitivities and other monitoring mechanisms like board monitoring and shareholder rights. For a thorough understanding of the relationship between CEO reputation and governance-related performance, researchers believe that a variety of corporate governance methods must be taken into account.

CHAPTER THREE

METHODOLOGY

3.1 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.

3.2 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”

3.3 Study Population

A total of 70 employees from the Housing Finance Bank were used in the study for this purpose. The population included 40 middle level managers, 20 department heads, and 10 members of senior management. Consequently, a total of 70 Housing Finance Bank employees were used for the study (Housing Finance Bank HR Report, 2022).

3.4 Determination of the Sample Size

According to the sample size calculation table created by (Krejcie and Morgan, 1970), a total sample size of 59 people was used in this investigation. The following table 2 explains how the study's sample size was chosen:

Table 1: 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*

3.5 Sampling Techniques and Procedures

Both purposive and straightforward random sampling techniques were employed to choose the sample for this investigation. Without making any distinctions, a sample is chosen at random by simple random sampling, and each sample has an equal probability of being chosen for the study.

The purpose of simple random sampling, according to (Hayes., 2023), is to obtain the desired presentation from the members of the available population. On the other hand, the researcher selects the important informants via purposeful sampling. Because they are the ones who make decisions about policies and strategic management, the researcher focused this study on the bank's upper management. Consequently, the researcher purposefully and randomly picked 33 middle-level managers, 10 heads of departments, and 10 members of high management for the study.

3.6 Data Collection Methods

The study included both qualitative and quantitative data collection techniques. Utilizing various data collection techniques verifies the accuracy of study results. This made it possible to generalize the findings to the intended audience.

3.6.1 Questioning

To get information from respondents, questions were posed. All of the respondents in the study sample shown in table 1 above completed self-administered questionnaires, which were utilized to collect data. Because they can be utilized with large numbers of respondents and don't require the presence of the researcher or a research assistant, questionnaires were used.

3.6.2 Interviewing

A face-to-face conversation between the interviewer and the interviewee constitutes an interview. The interview gives the researcher the opportunity to pursue leads and collect more information for clearer analysis. To gain a thorough knowledge of the study theme, interviews were conducted with the respondents in the sample shown in table 1 above.

3.6.3 Documentary Review

The approach was designed to gather data from the currently available sources by many academics on a studied phenomenon (Bruce, 1994). Published sources and unpublished sources make up the two main categories into which the documentary review's primary sources were divided. In order to connect the study's conclusions with other published and occasionally unpublished data, it is crucial to employ documentary sources. The secondary data will be gathered by visiting libraries at various institutions and searching the internet for relevant information about the connection between corporate governance and the financial performance of commercial banks.

Before the field data collection activity, some of the documents were evaluated; others, however, were selected during the field data collection exercise, particularly during interviews with key respondents, and were intended to be utilized to enliven the research discussions. Primary and secondary sources of information were used to assess the documentation related to the corporate structure and financial performance of the Housing Finance Bank (Mushemeza, 2009).

3.7 Data Collection Instruments

3.7.1 Questionnaires

The targeted respondents were given the questionnaire, which was created and distributed. They read and wrote the semi-structured questionnaire, which included both open-ended and closed-ended questions. Confidentiality was also guaranteed. In order to save time, overcome language barriers, and correct question category misinterpretation, it was given to top management personnel, department heads, and middle level managers.

Closed-ended questions are used in the survey to get precise quantitative data. Used was a 5-point Likert scale (5 = strongly agree, 4 = agree). Respondents might select from a range of options (3: neutral or unsure, 2: disagree, and 1: strongly disagree). The instrument was chosen

over an interview method because it saved time by requiring less time to move from one respondent to another when gathering data (scattered respondents) (Kakoza, 2002).

3.7.2 Interview Guides

Key informant samples from table 1 above were utilized to create unstructured interview guides to collect data. Unstructured interviews were chosen because they are more adaptable and enable interviewers to elicit specific information from respondents (Amin, 2005).

3.7.3 Documents

Various pertinent official documents were examined. This was done to supplement the data acquired by other research tools. The researcher looked into both published and unpublished reports and materials.

3.8 Validity and Reliability

3.8.1 Validity

Content validity ensures that operationalization of the construct is based on items which were taken from the specific domain of content relevant to the specific situation of measurement. It is recommended that at least three experts to be involved in evaluating the content validity (Shrotryia & Dhanda, 2019). In order to determine the relevance of the questions and items in the instrument using the Content Validity Index (CVI), professionals (academics and practitioners) examined the data collection instrument.

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

$$\text{CVI} = n/N$$

Where n= items that rated relevant

N= total number of items

$$37/41 = \mathbf{0.90}$$

Source: *Department of Medical Education, School of Medical Sciences, Universiti Sains Malaysia, MALAYSIA & Yusoff, 2019)*

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 (Department of Medical Education, School of Medical Sciences, Universiti Sains Malaysia, MALAYSIA & Yusoff, 2019).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.

3.8.2 Reliability

Reliability refers to the degree to which the instruments consistently measure whatever it is measuring (Liew & Idris, 2017). 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 *Source:(Kilic, 2016)*

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 2: Cronbach’s Alpha Coefficient for the Study Variables

Study Variables	Anchor	Cronbach’s Alpha
Board Size	5 Points	0.864
Board Composition	5 Points	0.815
CEO Reputation	5 Points	0.664
Financial Performance	5 points	0.877

Source: *Primary data*

3.9 Procedure of Data Collection

The researcher requested permission from the head of undergraduate department at Uganda Christian University to address the bank management where the study was done after the research proposal had been authorized and passed along with the research data collection materials. The letter attempted to identify the researcher as a Uganda Christian University student. It provided a description of the study's focus and objectives. It requested that the pupil receive any necessary support. The researcher then established appointments with the various authorities to whom the letter was addressed in order to properly prepare the study's execution. As shown in table 1 above, interviews and questionnaires were first given to the respondents who had been sampled. The logic behind this hierarchy is to make it simple to compare the data gathered from each of the responder types. Senior management received a work plan for data collecting so that the researcher could readily communicate with respondents at the designated 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.

3.10 Data Analysis

To ensure that the collected data was of the necessary quality, correctness, and completeness, it was assembled, sorted, edited, and coded. The Statistical Package for Social Sciences (SPSS 19) was used to enter it into the computer for analysis. The commercial bank utilized as the case study's corporate governance and financial performance were compared using correlations. The relationship between corporate governance and the financial performance of commercial banks was explained using regression analysis. The findings were provided in narrative, table, frequency, percentage, graph, and citation-based formats.

3.10.1 Quantitative Data Analysis

Using SPSS (19), quantitative data was analyzed to create pertinent descriptive statistics (frequencies, pie charts, and percentages), which were then further analyzed to draw pertinent inferences. Tables were used for presentation. The Pearson correlation coefficient was used to calculate the relationship between the variables.

3.10.2 Qualitative Data Analysis

This required using non-quantitative methodologies that explored social relationships and described reality as perceived and presented by respondents. Its main goal is to encourage a better knowledge of both how things are and why they are that way (Amin, 2005). In addition to secondary data to contrast with the primary data, other qualitative approaches included the pilot research, observation results, and pertinent quotes from the respondents.

3.11 Measurements of the Research Variables

Corporate governance was measured using the dimensions of number of board members (board size), insider/outsider director ratio, age and gender diversity for board composition, and CEO's credibility and trust as adopted from 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 and (Dess and Shaw, 2001).

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

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.

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 3 below.

Table 3. 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 3 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 the Respondents

Frequency table was used to present and analyze data on the age group of the respondents. This is illustrated in table 4 below.

Table 4: Distribution of the Gender of the Respondents

Gender	Frequency	Valid Percentage
Male	33	55.9
Female	26	44.1
Total	59	100

Source: *Primary Data*

From table 4 above, the findings indicate that majority (55.9%) of the respondents were male, while the female comprised 44.1% of the respondents. This implies that majority (55.9%) of the respondents who participated in this study were male, meaning that the males are more involved and dominate 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 analyze data on the education level of the respondents. This is illustrated in table 5 below

Table 5: Distribution of Education Level of Participants

Education Level	Frequency	Valid Percentage
PhD	5	8.5
Masters	5	8.5
Degree	49	83.0
Total	59	100

Source: *Primary Data*

From table 5 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 Number of years worked for Housing Finance Bank

Frequency table was used to present and analyze data on the number of years worked for Housing finance bank by the respondents. This is illustrated in table 6 below;

Table 6: Distribution of the Number of Years worked for the Bank

Number of Years	Frequency	Valid Percentage
Less than 1 year	13	22.0
1 – 3 years	37	62.7
4 – 6 years	9	15.3
Total	59	100

Source: *Primary Data*

From table 6 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 of the Variables

Descriptive statistics were used to analyze the variables under study. Data on board size, board composition, and CEO reputation, 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 analyze the impact of board 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 7 below.

Table 7: Descriptive statistics Board Size and Financial Performance

Statement on board size	Percentage Responses (%)					Mean	SD
	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 subcommittee meetings are conducted regularly	27 (45.7%)	19 (32.2%)	5 (8.5%)	4 (6.8%)	4 (6.8%)	1.9	1.21
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	2.3
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 subcommittee 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 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.

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.

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 analyze 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 8 below.

Table 8: Descriptive Statistics for Board Composition and Financial Performance

Statement on board Composition	Percentage Responses (%)					Mean	SD
	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 8 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.

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.

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 analyze 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 9 below.

Table 9: Descriptive Statistics for CEO Reputation and Financial Performance

Statement on CEO Reputation	Percentage Responses (%)					Mean	SD
	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 9 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.

4.4 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, and CEO reputation on financial performance were established using Pearson’s correlation. The results of the correlation analysis are indicated in table 10 below.

Table 10: The Relationship between Corporate Governance and Financial Performance

	1	2	4	4	5
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	
Financial Performance(5)	.584**	.453**	.289**	.420**	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 predictor of financial performance. This implied that a larger board size with more members leads to better financial performance.

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 predictor 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.

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 predictor of financial performance. This is therefore an indication that a positive CEO reputation will greatly contribute financial performance.

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 11 below presents the regression model of the variables under study.

Table 11: Regression of Corporate Governance with Financial Performance

		Coefficient (a)			t	Sig.
		Unstandardized Coefficients B	Std Error	Standardized Coefficient Beta		
Model	(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
a Dependent Variable: Financial Performance						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.607(a)	.370	.364	.64321		

Source: *Primary data*

From table 11 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, and CEO reputation. 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 ($r = 0.289^{**}$, $p = 0.00 < 0.01$) 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 ($r = 0.420^{**}$, $p = 0.00 < 0.01$) showed that there is a significant positive relationship between CEO reputation and financial performance.

5.2 Discussion of the 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.

5.3 Conclusion

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, therefore the researcher suggests that Finance bank retains a small sizeable board.

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 though the positive relationship from the study was weak, Housing Finance bank needs to have a board with people with expertise in running companies.

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.

5.4 Recommendations

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 management to adhere to principles of corporate governance and choose a small board of directors not above ten in number.

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 integrity and business acumen in order to steer the company into the right direction.

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 integrity 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.

5.5 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 of 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: Questionnaires

Dear Respondent,

My name is **Odeke James Calvin**, a student at Uganda Christian University, undertaking a study in fulfillment of the requirements for the award of a Bachelor's Degree in Business Administration (Accounting).

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.

Section A: Bio Data

1. What is your Gender? Male Female

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 in this section 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 subcommittee meetings conducted regularly					
3	Board size contributes greatly to firm value					
4	Small boards are beneficial to high performance					
5	Limiting board size improves performance of the bank					
6	A large board is a characteristic of weak corporate governance.					
7	Board size increase, affects monitoring of management.					
B	Board Composition					
1	Director's independence increases decision making					
2	The board with higher number of non-executive directors suggest better performance					
3	Higher number of Executive directors affect board performance					
4	Independent directors make better monitors					
5	Managerial inefficiency are a result of weak governance					
C	CEO Reputation					
1	A dual role of CEO and Chairman is related to insider power.					
2	The role of CEO and Chairman should be held by a single person.					
3	Agency Problems arise with duality of CEO and Chairman's role.					
4	Split role of CEO and Chairman suggests better governance.					

5	The bank has specific written procedures/policies in regard to corporate governance					
D	Financial Performance					
1	The Bank meets its targets consistently					
2	Departments consistently meet their targets					
3	The bank rewards employees who mitigate fraud					
4	Annual excellent performance is rewarded for individual performers					
5	There is transparency in financial reporting					
6	The bank discloses its financial performance to public and its shareholders					
7	Performance appraisals are carried out in the bank to assess output and profitability					
8	There is regular trainings carried out to equip staff with cutting edge business knowledge					
9	Measured performance of organizational units or groups of staff used to pay bonuses to the staff					
10	Evaluation of performance has an effect on the pay of individuals					
11	Department allocation of resources is more or less directly linked to units of performance					
12	Service standards have been used to define the level of service the clients are entitled to receive.					



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1st Aug 2023

TO WHOM IT MAY CONCERN

Name: ODEKE JAMES CALVIN Reg. No. J22805/004

A bachelor's student who is seeking permission from your office to collect data for his/her dissertation titled

"THE EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA"

We shall be grateful if you could render assistance to him/her in collecting the necessary data for his/her dissertation

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator