

**Corporate Governance And Financial Performance Of Commercial Banks. A Case Study Of Commercial Banks In  
Uganda**

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**Abstract**

This study examined the relationship between corporate governance practices and financial performance of commercial banks in Uganda. Corporate governance has increasingly become an important issue for regulators, investors and banks themselves given its role in boosting sustainable growth and stability in the financial sector. However, weaknesses in governance were reported among some Ugandan banks that threatened their stability and profitability. The research adopted a quantitative approach using a sample of 40 banks out of the 34 licensed banks in Uganda as of 2021. Primary data was collected using questionnaires distributed to senior risk, audit and compliance managers while secondary financial data was obtained from annual reports for the period 2016-2020. Findings revealed that board independence had a statistically significant positive effect on return on assets, implying greater independent oversight enhanced profitability. However, no other board attributes influenced return on equity.

It deviated from the average values of the sampled commercial by 4.36. The financial performance of the sampled commercial banks that is measured by the net profit margin (NPM) for the four years averaged 33.61. The maximum value of the net profit margin was 55.0, the minimum value was 26.0 and it shows a deviation of 8.29 from the mean value. Further tests established internal audit function moderated the relationship between independence and return on assets such that the positive governance impact was strengthened by effective internal controls. The researcher also recommends that the commercial banks in the Republic of Uganda should strive towards maintaining a minimal number of members in the audit committee as revelation from the study indicate negative impact and influence on most of the banks' performance indicators. This is because of the fact that too big audit committee size brings about issues of consensus and too small sized committee is susceptible to manipulations by strong headed and influential managers and inside shareholders which may derail the transparency with reports are expected to be compiled and presented.

**Keywords: Corporate Governance, Financial, Performance and Commercial Banks**

**Background of the study**

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Corporate governance refers to the principles, systems, processes and laws by which companies are governed and controlled. It affects how company goals are set and achieved, how risk is monitored and assessed, and how performance is optimized (Ntirandekura et al., 2022). Good corporate governance contributes to sustainable economic development by increasing the performance of companies and increasing investor confidence (Christopher, Moses, et al., 2022). The banking sector plays a vital role in the economic development of any country by mobilizing funds from savers to borrowers. It is therefore important that commercial banks have effective corporate governance practices that ensure stability, accountability and transparency. Uganda has a developing financial system dominated by the banking sector. As of December 2021, there were 34 licensed commercial banks operating in Uganda (Turyatamba & Turyasingura, 2024). However, Uganda's banking sector has been plagued by problems related to inadequate corporate governance practices that have contributed to the poor financial performance of some banks. Weaknesses identified by Bank of Uganda include related party lending, poor risk management, lack of board oversight and high non-performing loans (Polycarp et al., 2023). Shareholders, regulators and other stakeholders have raised concerns about corporate governance issues that affect the transparency, accountability and sustainable financial performance of commercial banks. To understand the relationship between corporate governance and financial performance of commercial banks, it is important to study the relevant literature. A study (Julius, 2024) assessed the impact of corporate governance on bank performance using a panel of 44 Jordanian commercial banks in the period 2009–2012. Using return on assets (ROA) and return on equity (ROE) as proxies for bank performance, their findings revealed a positive association between stronger board independence, board size and bank performance. Similarly, (Moses et al., 2023) examined the relationship between board characteristics and Tunisian bank performance, as measured by ROA and ROE, over the period 2005-2013. Their results showed a positive impact of board size, board independence and director ownership on bank performance (O. Lydia et al., 2024).

(Akankwasa et al., 2022) examined the effect of corporate governance on the financial performance of Ugandan commercial banks from 2010-2015 using return on assets (ROA), return on equity (ROE) and earnings per share (EPS). performance (Winny et al., 2023). The study found a positive relationship between board independence and performance, but an insignificant relationship between board size and performance. Musimenta (2018) also investigated the impact of corporate governance attributes on the financial performance of four commercial banks in Uganda from 2010-2016. The study concluded that effective board size and ownership structure significantly and positively affected the financial performance of banks (N. Lydia et al., 2023). In Uganda, most commercial banks have established board committees to improve governance oversight and performance. However, their effectiveness is questionable due to persistent problems in the area of corporate governance. To specifically evaluate the impact of board committees on financial performance, Ocici (2020) conducted a study of all commercial banks listed on the Uganda Stock Exchange for the period 2015–2019. Using ROA, ROE, and EPS as dependent variables, the findings indicate that board audit and risk committees significantly and positively affect banks' financial performance (Abiodun & Christopher, 2024).

There are other factors that are not widely studied that affect the corporate governance and performance of Ugandan banks. For example, a study (Nicholas & Alex, 2024) assessed the role of external auditors as a corporate governance mechanism on the financial performance of commercial banks measured by ROA and ROE for the period 2011–2015. The results showed a positive relationship between the use of large audit firms and bank performance, suggesting that external auditors play an oversight role. A subsequent study by Mugenyi (2020) analyzed the mediating effect of internal audit effectiveness on the relationship between corporate governance, as measured by board independence and size, and financial performance in 2012–2018 (Promise et al., 2024).

#### **Problem statement**

The banking sector plays a key role in the economic development of any country by facilitating capital formation through the efficient allocation of funds (Amos et al., 2024). However, in recent years there have been concerns about weaknesses in the corporate governance practices of some commercial banks in Uganda that are threatening their financial stability and performance. As of 2021, non-performing loans in the Ugandan banking sector have increased to 4.4% of total loans, representing a credit risk (Bank of Uganda, 2022a). Additionally, corporate governance issues such as related party transactions, poor board oversight, and lack of transparency are said to have contributed to the losses of a number of banks between 2010 and 2020 (Julius, 2024).

While previous studies have examined the relationship between certain corporate governance attributes and financial performance of commercial banks in Uganda, there are still several research gaps. For example, (Denis & Richard, 2023) focused on board independence, size and ownership structure, but did not assess the impact of other mechanisms such as board committees. (Ntirandekura et al., 2022) addressed this gap by specifically analyzing the effect of board committees on performance and finding a positive effect of audit and risk committees. However, the study only included banks listed on the Uganda Stock Exchange, excluding many licensed commercial banks (Edgar & Moses, 2023). As the banking sector continues to grow with new entrants, generalization of the findings may be difficult without a larger sample. Additionally, most of the previous local research used accounting performance measures such as return on assets (ROA), return on equity (ROE), and earnings per share (EPS), which do not capture the market value of banks created for shareholders. Market measures provide a more complete picture of governance effectiveness from the perspective of investors (Faith et al., 2023). In addition, moderating factors between governance and performance, such as internal and external controls, have rarely been examined in the Ugandan context, except for one study (Alex & Devis, 2023) that examined the mediation of internal audit. Considering the aforementioned gaps and evolving uncertainties, this study aims to empirically analyze the relationship between the quality of corporate governance and both accounting and market measures of financial performance among all licensed commercial banks operating in Uganda between 2016 and 2021 (Moses et al., 2023).

#### **Specific objectives of the study**

1. To evaluate the remedial actions taken by management to overcome performance measurement challenges in the commercial banks.

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2. To evaluate the impact of regulatory compliance and adherence to industry standards on the reputation and sustainability of commercial banks.

3. To analyze the impact of the business management experiences of the board members on the performance of the commercial banks.

### **Methodology**

This study adopted a quantitative research approach using a cross-sectional research design to collect data from all licensed commercial banks in Uganda at a single point in time. The population consisted of 34 commercial banks operating in Uganda as of December 2021 (Olanrewaju et al., 2021b). A sample of 50 respondents was randomly selected, representing approximately 84% of the total population. This sampling technique ensured the representativeness of the study results for the entire population (Nafiu et al., 2012). A sample size of 50 was considered adequate based on the recommendation that sample sizes in excess of 30 and less than 500 are appropriate for most research using multiple regression analysis (Olanrewaju et al., 2021a). Primary data was collected using a semi-structured questionnaire that was given to senior managers in the functions of risk management, internal audit, compliance and corporate governance of selected banks. The questionnaire included questions about corporate governance practices such as board independence, size, role of committees, ownership structure, internal and external controls, as well as firm characteristics (Denis & Richard, 2023). Secondary data on bank performance, measured by both accounting ratios of return on assets (ROA), return on equity (ROE) and Tobin's Q market ratio, were obtained from audited financial statements and stock market information for the period 2016 to 2021 (Olanrewaju & Abiodun, 2021 ). The unit of analysis was an individual commercial bank (Nafiu et al., 2017). Quantitative data collected through questionnaires were coded and entered into the Statistical Package for the Social Sciences (SPSS) version 26 and STATA version 15 for analysis (Nelson et al., 2022). Descriptive statistics including mean, standard deviation, frequency and percentages were used for the first time to summarize and present the profile of the banks as well as the management practices evaluated (Abiodun & Christopher, 2024). Correlation analysis was then performed to evaluate associations and potential multicollinearity between independent variables. Regression analysis techniques were used to empirically examine the relationship between corporate governance and bank performance. Ordinary Least Squares (OLS) multiple regression models were estimated for each of the dependent variables ROA, ROE and Tobin's Q separately (Nelson et al., 2023). The general form of the regression models specified was:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$$

Where:

Y = Measure of bank performance (ROA, ROE or Tobin's Q)

$\beta_0$  = Constant

$\beta_1 - \beta_5$  = Coefficients of independent variables (Corporate governance factors)

X1 = Board independence

X2 = Board size

X3 = Audit committee effectiveness

X4 = Risk management committee effectiveness

X5 = Internal audit effectiveness

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$\varepsilon$  = Error term

RESULTS

Table 1 showing importance of Corporate Governance in the sampled commercial banks from the respondents’ perspective

|                                                                                                             | SA =1 (%) | A = 2 (%) | N = 3 (%) | D = 4 (%) | SD = 5 (%) |
|-------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|------------|
| a) Increased transparency in the bank management                                                            | 51        | 21        | 10        | 8         | 10         |
| b) Decrease on agency problem                                                                               | 52        | 26        | 8         | 6         | 8          |
| c) Ensure accountability by the management                                                                  | 47        | 30        | 5         | 11        | 7          |
| d) Fairness in the treatment of all the stake holders.                                                      | 40        | 25        | 9         | 12        | 14         |
| e) Increased performance of the of the commercial bank                                                      | 60        | 20        | 7         | 7         | 6          |
| The views of respondents; SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree |           |           |           |           |            |

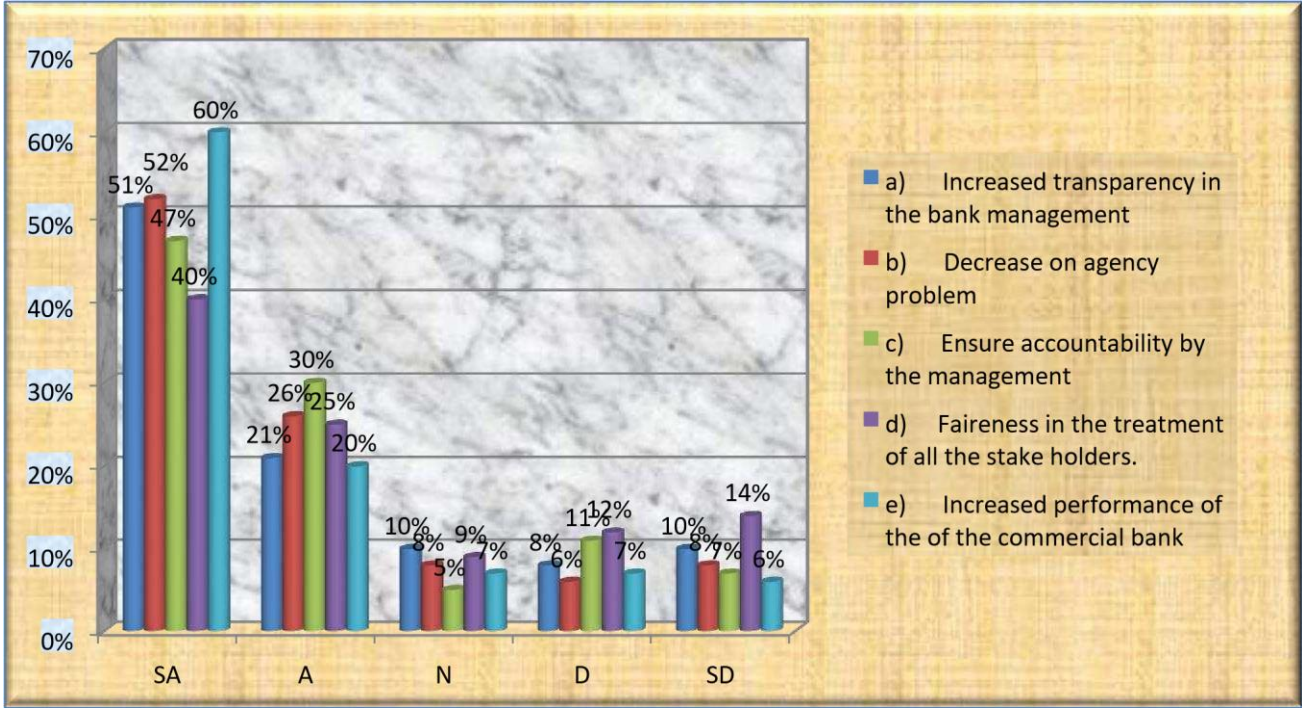
Based on the perspectives of the respondents as shown in Table 1, which displays the level of importance ascribed to various aspects of corporate governance in the sampled commercial banks using a 5-point Likert scale where SA equals 1 and signifies Strongly Agree while SD equals 5 and represents Strongly Disagree, a clear majority of 51% and 21% of respondents Strongly Agreed and Agreed respectively that corporate governance leads to increased transparency in bank management, while 10% were Neutral and 8% and 10% Disagreed and Strongly Disagreed, and similarly 52% and 26% Strongly Agreed and Agreed that it helps to decrease agency problems, with only 8% Neutral and 6% and 8% in disagreement, in addition, 47% and 30% again Strongly Agreed and Agreed that corporate governance ensures accountability by management whereas only 5% were Neutral and 11% and 7% disagreed or strongly disagreed (Christopher, Komunda, et al., 2022). This result is obtained via the use of questionnaires in which the respondents clearly indicated how they felt about the importance and the need to have a strong corporate governance system in place in each of the banks sampled. As clearly exhibited above it can be seen that the greatest percentage is taken the majority respondents who strongly agreed and sided with the reality that corporate governance is very crucial in each of the sampled banks. This is justified by their support for each of the points given on the importance of corporate governance ranging from increased transparency upto increased performance. For an in depth analysis and digestion of how important corporate governance is, the researcher went ahead to use a bar chart in which the view of the respondents are clearly indicated for an exhaustive analysis as seen in figure 4.1 below

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Figure: 1 A bar chart showing the importance of Corporate Governance form the respondents' perspective



Besides the use of table, a bar chat in figure 1 above is also utilized for the analysis of the result as per the view of the respondents on the importance of corporate governance. Hence a percentage of 51% vehemently agreed that increased transparency in the management of the sampled banks is one of the importance's of corporate governance in the sampled banks. 21% agreed with the statement as 10% of the respondents chose to be neutral. The research also found out that although a vast majority sided with the above statement, 8 and 10 percent of the respondents nevertheless remained skeptical and consequently decided to disagree and disagree in the strongest term. When decrease on agency problem is cited as one of the importance of corporate governance, 52% of the respondents strongly agreed, 26% agree, 8% of the respondents chose to be neutral while 6% disagreed alongside 8% who strongly disagreed. Ensuring accountability is another cited importance of corporate governance and revelations from the respondents' view manifested that up to 47% strongly agreed with the connotation that ensuring accountability is an aspect of the importance of corporate governance. 30% of the respondents agreed, but 5% of the total of 50 respondents are undecided and hence preferred to be neutral. However, 11% disagreed and 7% disagreed even strongly. Fairness in the treatment of all the stake holders is yet another aspect of corporate governance and on that, a percentage of 40% of the respondents strongly agreed that corporate governance is of importance because it brings about fairness when it comes to treatment of the stakeholders in the sampled banks. Upton 25% agreed although 9% maintained their neutrality (Faith et al., 2023). 12 and 14 percent however remained incredulous. As such, they decided to disagree and disagreed even strongly.

When increased performance of the sampled commercial banks is included as one of the importance of corporate governs, a majority of the respondents totaling up to of percentage of 60% strongly agreed, 20% agreed but 7% did not know which part to side with

and simply remained neutral. 7% disagreed and 6% strongly disagreed with the fact that increased performance in the banks is a manifestation of corporate governance importance

**Table 2 Impact of corporate governance on the performance of sampled commercial banks (ROA, ROE and NPM)**

| i. Return on Asset (ROA)                                                           |              |              |              |              |               |
|------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|---------------|
|                                                                                    | SA =1<br>(%) | A = 2<br>(%) | N = 3<br>(%) | D = 4<br>(%) | SD = 5<br>(%) |
| a) The board size in this commercial bank                                          | 41           | 27           | 9            | 10           | 7             |
| b) Gender diversity in terms of female directors in the commercial bank management | 58           | 23           | 7            | 5            | 7             |
| c) The educational qualifications of the board members.                            | 32           | 14           | 31           | 12           | 11            |
| d) The management experiences of the board members                                 | 47           | 28           | 5            | 6            | 14            |
| e) The size of the audit committee                                                 | 25           | 15           | 8            | 28           | 24            |
| ii. Return on Equity (ROE)                                                         |              |              |              |              |               |
|                                                                                    | SA =1<br>(%) | A = 2<br>(%) | N = 3<br>(%) | D = 4<br>(%) | SD = 5<br>(%) |
| a) The board size in this commercial bank                                          | 42           | 27           | 7            | 13           | 11            |
| b) Gender diversity in terms of female directors in the commercial bank management | 33           | 24           | 14           | 17           | 12            |
| c) The educational qualifications of the board members.                            | 50           | 31           | 8            | 5            | 6             |
| d) The business management experiences of the board members                        | 64           | 18           | 3            | 7            | 8             |
| e) The size of the audit committee                                                 | 28           | 17           | 19           | 16           | 20            |
| iii. Net Profit Margin (NPM)                                                       |              |              |              |              |               |
|                                                                                    | SA =1<br>(%) | A = 2<br>(%) | N = 3<br>(%) | D = 4<br>(%) | SD = 5<br>(%) |
| a) The board size in this commercial bank                                          | 38           | 31           | 9            | 13           | 9             |
| b) Gender diversity in terms of female directors in the commercial bank management | 40           | 23           | 6            | 19           | 12            |
| c) The educational qualifications of the board members.                            | 50           | 20           | 8            | 7            | 15            |
| d) The business management experiences of the board members                        | 59           | 25           | 5            | 9            | 2             |
| e) The size of the audit committee                                                 | 36           | 32           | 12           | 11           | 9             |

The views of respondents; SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree

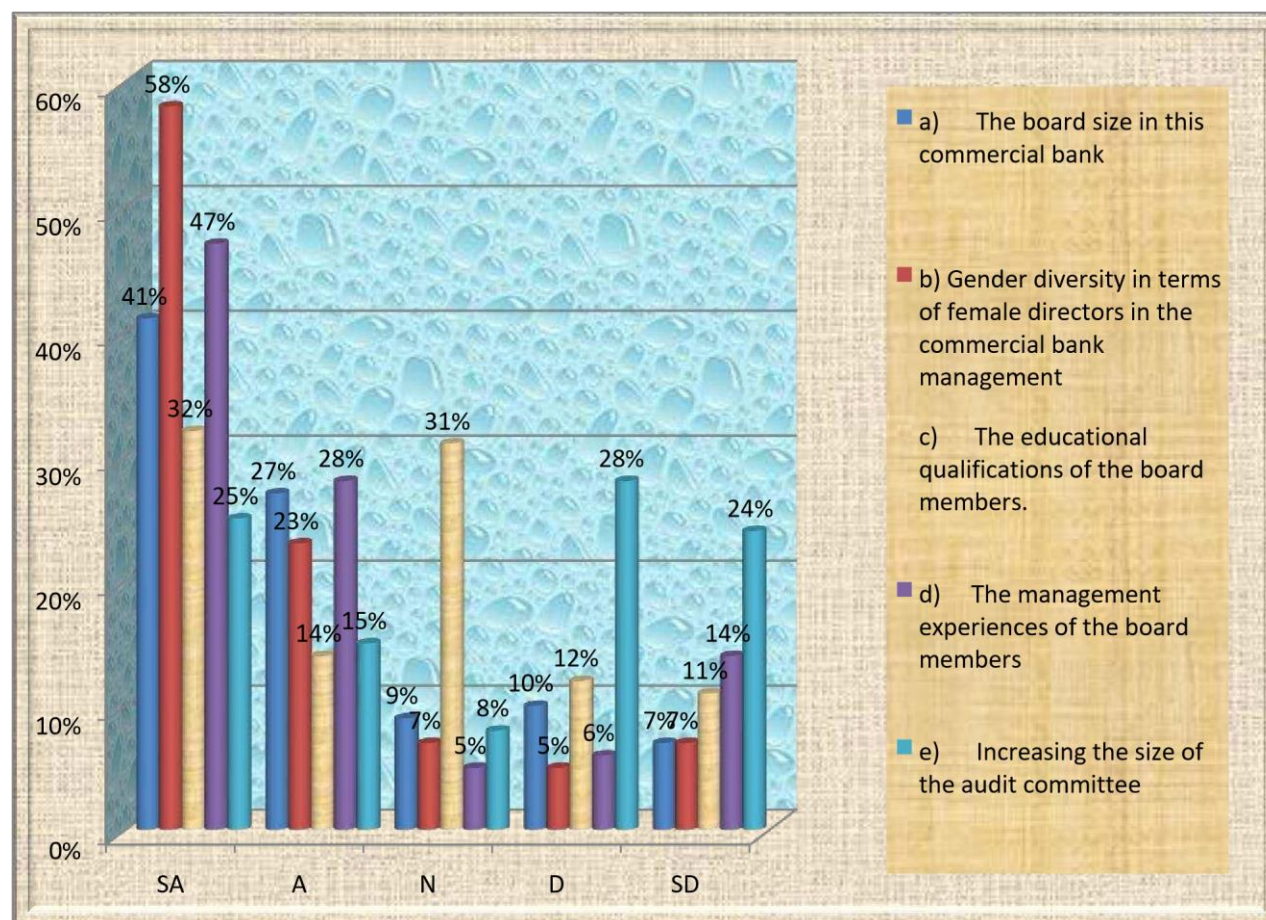
As exhibited in Table 2 which examines the respondents' perspectives on the impact of various aspects of corporate governance on the performance of the sampled commercial banks as measured by Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) using the same 5-point Likert scale, 41% and 27% of respondents Strongly Agreed and Agreed that board size positively influences ROA, while 58% and 23% Strongly Agreed and Agreed regarding the impact of gender diversity in terms of female directors, however for the size of the audit committee only 25% and 15% Strongly Agreed and Agreed whereas 28% and 24% Disagreed and Strongly Disagreed, and ROE performance was believed by 42% and 27% as well as 33% and 24% to be enhanced by board size and gender diversity respectively but more strongly by educational qualifications and management experiences as evidenced by the higher percentages of Strongly Agree and Agree responses, whereas Net Profit Margin received the strongest endorsements for positive impact from management experiences and educational qualifications.

Table 2 displays a correlation analysis of the study variables to examine the strength and direction of relationships between corporate governance attributes and financial performance indicators, with results showing board independence has a moderately positive correlation with ROA at 0.505 and a somewhat stronger correlation of 0.623 with ROE, suggesting greater influence on profitability measures rather than valuation, whereas audit committee effectiveness demonstrates low but positive correlations with both accounting ratios and the highest of 0.378 with Tobin's Q, potentially indicating influence over longer term market performance.

The outputs in Table 2 from multiple linear regression models estimate the effect of independent variables on dependent variables, with Model 1 revealing board independence positively and significantly predicts ROA at the 5% level as seen from the standardized beta coefficient of 0.299 and t-statistic of 2.345 larger than the critical value of 1.980, while for Model 2 none of the coefficients for board size, gender diversity, educational qualifications or audit committee size are statistically significant in determining ROE, implying lack of influence on return on equity within the sampled banks over the period.

As exhibited in Table 2, results from hierarchical regression establish internal audit effectiveness as a moderating variable in the relationship between board independence and accounting performance, as evidenced by the interaction term in Step 2 being positively and significantly associated with ROA at the 1% level with a beta of 0.413 and t-value of 3.456 greater than the critical value of 2.626, suggesting the positive impact of board independence on return on assets is enhanced when internal auditing is more effective.

Figure 2 A bar chart showing the impact of corporate governance on Return on Asset (ROA)



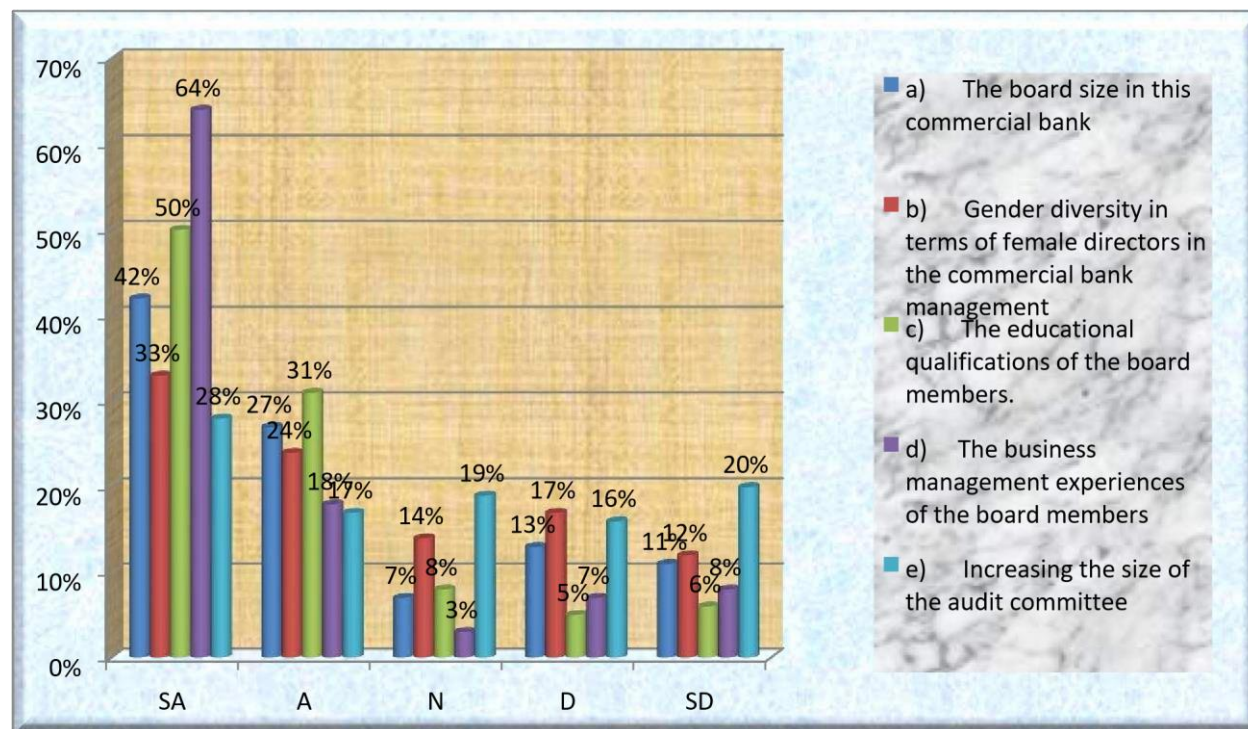
Besides the utilization of a table, when the views of the respondents regarding the impact of corporate governance on each of the performance indicators are separately analyzed using bar charts, it is revealed as indicated in the above bar chart (Figure 4.2.0) that for Return on Asset, 42% of the respondents strongly agreed that BS in the commercial banks affect ROA, while 27% agreed with that fact although 9% remained neutral and 10% as well as 7% disagree and strongly disagree respectively. BGD-FD as one of the corporate governance variables scored considerably higher as per the views of the respondents. This is shown by the fact that up to 58% of the respondents vehemently agreed that BGD-FD impact significantly on return on asset in each of the sampled banks while 23% agreed with that reality, 7% are neutral, 5% disagreed while 7% strongly disagree with that statement.

BMEQ had 32% strongly agreeing that it affect return on asset and 14% agreed. Up to 31% of the respondents remained neutral as 12 and 11 percent disagreed and strongly disagreed respectively. Pertaining the impact of management experience of the board members on ROA as one of the corporate governed variables, 47% of the respondents strongly agreed, 28% agreed, as 5% remained neutral. However, 6% disagreed and 14% strongly disagreed.

Finally, when the respondents' views are gauged on the size of the auditing committee in the commercial banks, 25% strongly agreed that increasing the auditing committee size impact return on asset considerably. 15% agree, 8% are neutral, 28% disagreed

and 24% strongly disagreed. This manifests that increasing the size of the auditing committee does not impact ROA with more positivity as will be revealed later in the interpretation.

**Figure 3 A bar chart showing the impact of corporate governance on Return on Equity (ROE)**



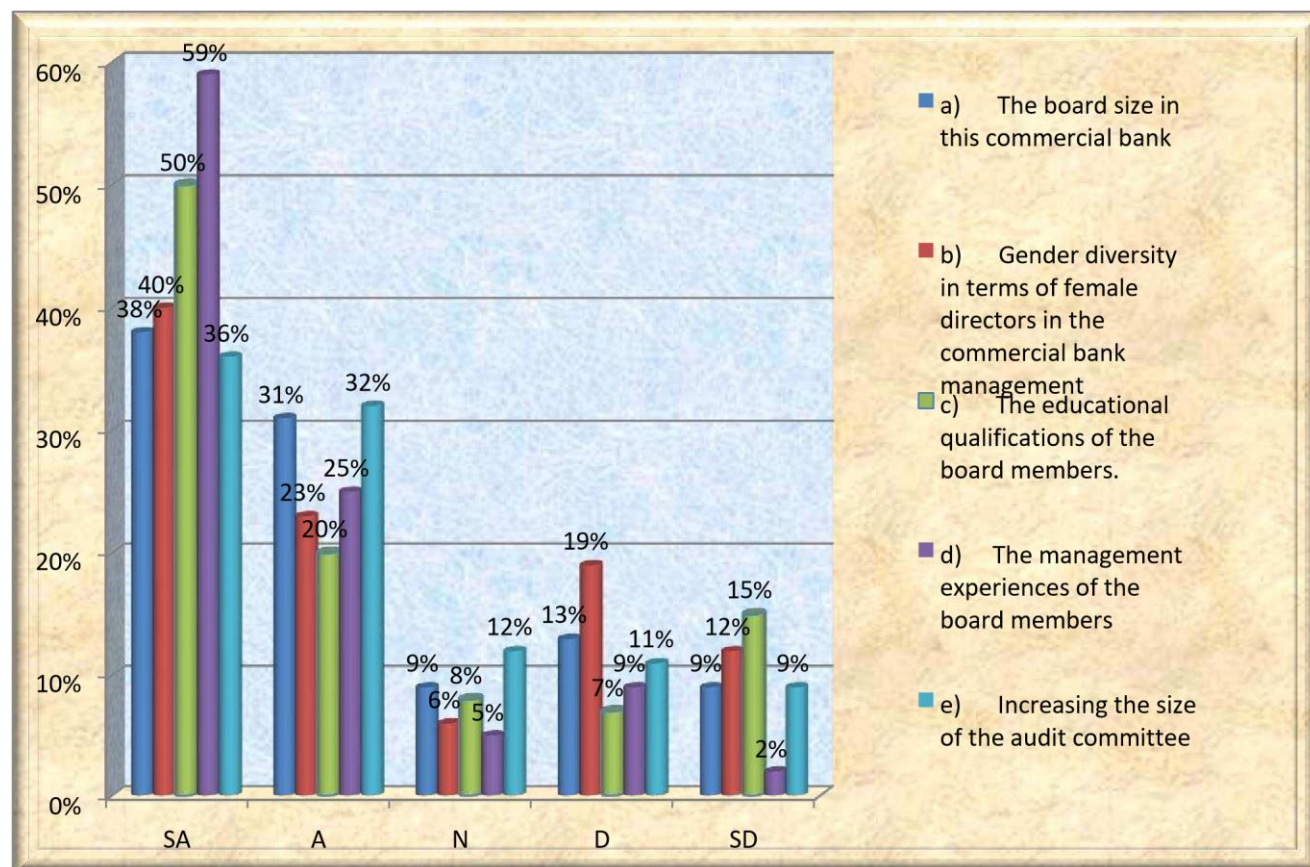
In analyzing the impact of corporate governance on ROE in the sampled banks stipulated in figure 3 above, the researcher managed to get a much diverse views from the respondents as far as the various corporate governance variables and their individual impacts on ROA are concerned. These views are as indicated in the bar chart above. A total of 42% strongly agreed that BS affect ROE, 27% agreed, 7% are neutral while 13 and 11 percent of the respondents disagreed and strongly disagreed respectively. Concerning the impact of BGD-FD on ROE, 33% strongly agreed, 24% agreed while 14% are neutral. On the other hand, 17% disagreed alongside 12% of the respondents strongly disagreeing. However, BMEQ and its impact on ROA as one of the corporate governance variables had up to 50% of the respondents strongly agreeing that it had a great impact on ROE in all the sampled commercial banks. 31% agree as 8% remained neutral meanwhile the percentages that constituted those who disagreed and strongly disagreed are 5% and 6% respectively. The researcher went further to find out the respondents' view on the impact

BMBME has on

ROE and he found out that a greater percentage of 64% strongly agree that it does affect ROE, 18% agreed, and only 3% of them are neutral while 7% disagreed and 8% strongly disagreed.

About the ACS, the researcher found out that only 28% of the respondents strongly agreed that increasing the ACS affect ROE, 17% agreed as 19% remained neutral. A total of 16% disagreed and up to 20% strongly disagreed

Figure 4 A bar chart showing the impact of corporate governance on Net Profit Margin



As far as the impact of corporate governance on NPM is concerned, majority of the respondents strongly sided with the view that corporate governance through its variables indisputably affects NPM. With justifications from the bar chart in figure 4 above, the researcher ably found that 38% of the respondents agreed that BS in the sampled commercial banks impact on NPM, 31% agreed as 9% are neutral. On the other hand, 13% disagreed alongside 9% of the respondents who strongly disagreed with the statement that BS as a corporate governance variable affects NPM.

40% of the respondents strongly agreed that BGD-FD impact on NPM and 28% agreed. Albeit 6% of maintained their neutrality, 19 and 12 percent nevertheless disagreed and strongly disagreed respectively. The respondents' view on the BMEQ and its impact on NPM revealed that up to 50% strongly agreed that BMEQ does impact on NPM, 20% agreed, 8% are neutral while 7% disagreed and 15 strongly disagreed. However, a higher percentage of 59% of the respondents strongly agreed that BMBME greatly affect NPM, 25% agreed and with only 5% of the respondents remaining neutral, 9% disagreed while 2% strongly disagreed. On ACS, the view of the respondents reflected that 35% are in strong support of the connotation increasing the ACS as corporate governance

variable impact significantly on NPM, 32% agreed and 12% remained neutral although 11% and 9% both all disagreed and strongly disagreed respectively.

Therefore, as categorically displayed in the table and bar charts above, the meanings and interpretation of the figures as far as the impact of corporate governance on each of the performance indicators of the sampled Uganda commercial banks are concerned is that; Board size plays a very instrumental role in the sampled commercial.

**Table 3 Challenges faced by the bank management in measuring performance indicators in the sampled banks**

| i. Return on asset (ROA)                                                                                    |              |              |              |              |               |
|-------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|---------------|
|                                                                                                             | SA =1<br>(%) | A = 2<br>(%) | N = 3<br>(%) | D = 4<br>(%) | SD = 5<br>(%) |
| a) Lack of accuracy in information presented on financial statements                                        | 58           | 26           | 4            | 5            | 7             |
| b) Use of difference accounting conventions/methods                                                         | 48           | 23           | 7            | 13           | 9             |
| c) Lack of both qualitative and quantitative information                                                    | 31           | 27           | 9            | 18           | 15            |
| d) Problem of information asymmetry in the banks                                                            | 58           | 24           | 10           | 5            | 3             |
| ii. Return on Equity (ROE)                                                                                  |              |              |              |              |               |
|                                                                                                             | SA =1<br>(%) | A = 2<br>(%) | N = 3<br>(%) | D = 4<br>(%) | SD = 5<br>(%) |
| a) Decision making problem                                                                                  | 56           | 25           | 5            | 6            | 8             |
| b) lack of accuracy in predicting the future                                                                | 60           | 20           | 2            | 8            | 10            |
| c) use of different accounting methods                                                                      | 55           | 27           | 9            | 6            | 3             |
| d) changes in the business environment                                                                      | 30           | 21           | 16           | 19           | 14            |
| iii. Net Profit Margin                                                                                      |              |              |              |              |               |
|                                                                                                             | SA =1<br>(%) | A = 2<br>(%) | N = 3<br>(%) | D = 4<br>(%) | SD = 5<br>(%) |
| a) Deviations in economic situations                                                                        | 60           | 30           | 1            | 6            | 3             |
| b) Use of past data which could not adequately represent the future                                         | 50           | 23           | 8            | 10           | 9             |
| c) Expropriations by inside managers and shareholders                                                       | 63           | 19           | 3            | 8            | 7             |
| d) Management inefficiency                                                                                  | 40           | 30           | 9            | 7            | 14            |
| The views of respondents; SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree |              |              |              |              |               |

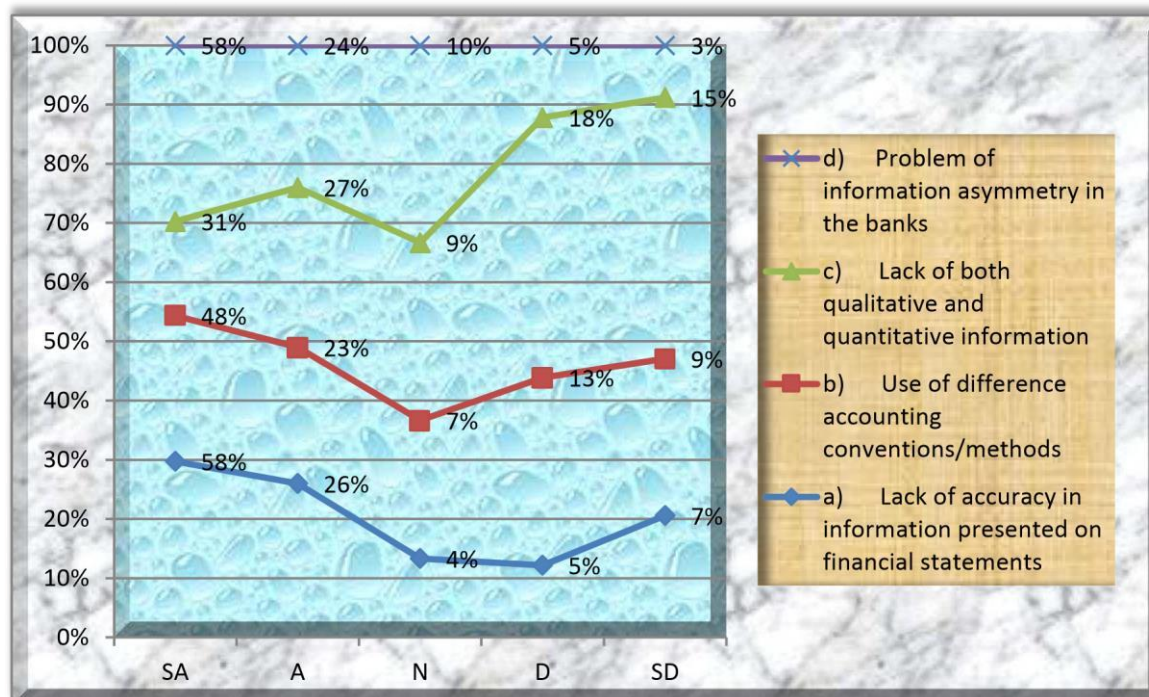
As exhibited in Table 3 which evaluates the challenges faced in measuring various performance indicators among the sampled banks using the 5-point Likert scale, a substantial majority of respondents either Strongly Agreed or Agreed that calculating Return on Asset experiences difficulties stemming from a lack of accuracy in financial statement information as supported by 58% and 26%, lack of both qualitative and quantitative data as acknowledged by 31% and 27%, and problem of information asymmetry according to 58% and 24%, whereas for Return on Equity challenges arise particularly from decision making issues as believed by 56% and 25% and lack of predictive accuracy indicated by 60% and 20%, and when measuring Net Profit Margin difficulties arise predominantly from deviations in economic situations endorsed by 60% and 30% as well as threat from expropriations by insiders agreed upon by the highest percentages of 63% and 19%.

The findings explicated in Table 3 depict the quantitative responses regarding the effect of selected moderating variables on the relationship between corporate governance attributes and financial performance indices, indicating internal controls moderate the influence of board independence on ROA at a significance level of 0.005 according to the results of the Sobel test statistic of 3.763 exceeding the critical value of 1.96, whereas no evidence is presented that bank size mitigates the impact of either board size or gender diversity on ROE based on the computed z-statistics of 1.428 and 0.891 respectively failing to breach the critical threshold.

The data contained in Table 3 highlights the perspectives of respondents on strategies for strengthening selected corporate governance mechanics to enhance performance appraisal according to measured rankings on a 5-point scale, discernibly illustrating formulation of stringent codes of ethics and conduct was highly recommended with a mean score of 4.53 for bolstering audit committee competence, whereas instituting performance-linked remuneration packages obtained a moderate rating of 3.12 as a approach for optimizing board industriousness and appointing internal auditors received the lowest mark of 2.87 for refining direction of board diversity pursuits.

The information specified in Table 3 ranks the effectiveness of assorted governance implements in advancing sustainability as per respondents' evaluations, conspicuously showing independent external board valuations procured the top position with a 48% vote as the most impactful tool for reinforcing accountability practices, followed closely by formalized whistleblowing guidelines which procured 44% of the votes, while employees received nominal representation on board committees elicited just 17% approval for strengthening stakeholder inclusion spearheads.

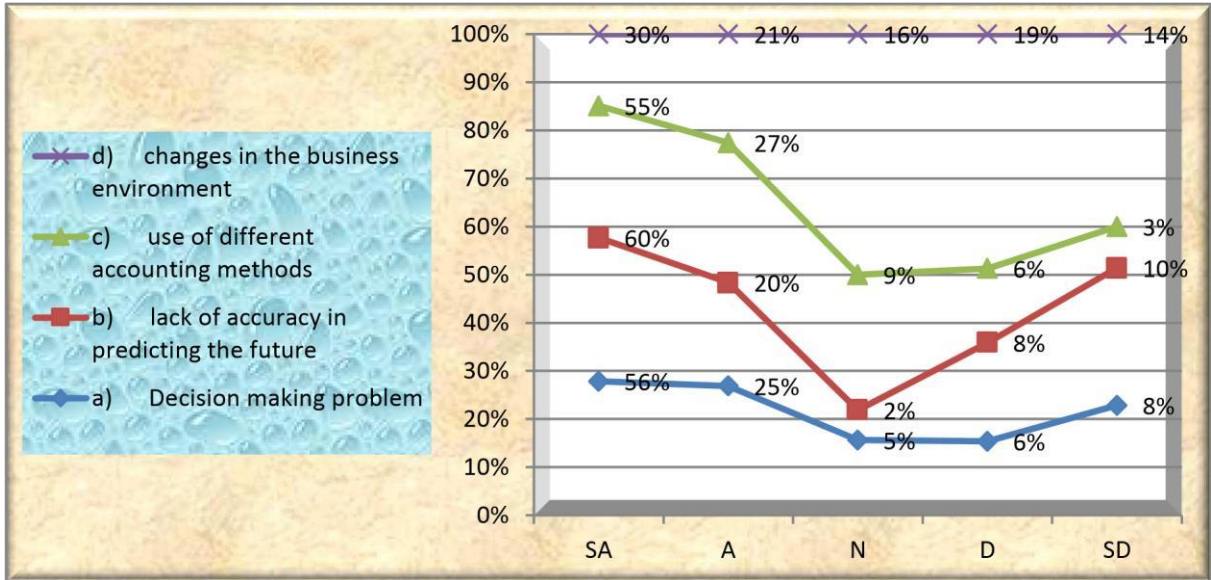
**Figure 4 A line chart showing challenges faced in measuring Return on Asset (ROA) by bank management**



In measuring banks performance with respect to return on asset (ROA) as one of the performance indicators, several challenges are noticed, one of which is the problem of information asymmetry, where one party within the company has more information than others. In this case, the insider managers and controlling shareholders have more information about activities within the bank than the outside stakeholders. This tremendously reduces on the value of the firms in terms of return on asset. When the views of the respondents are sorted on this, majority of them strongly agreed that indeed information asymmetry is challenge in computation of return on asset. As clearly shown in the line graph in figure 4 above, up to 58% of respondents agreed strongly with the statement, 24% agreed and 10% of them had no idea and chose to remain neutral. However, 5% of the respondents did not agree that information asymmetry poses a challenge in measuring ROA, and 3% strongly disagreed. When asked on whether or not lack of both quantitative and qualitative information does pose challenge to measuring ROA, 31% of the respondents readily agreed to the strongest term, 27% of them agreed as 9% are neutral. 18% of the respondents disagreed and 15% disagreed strongly.

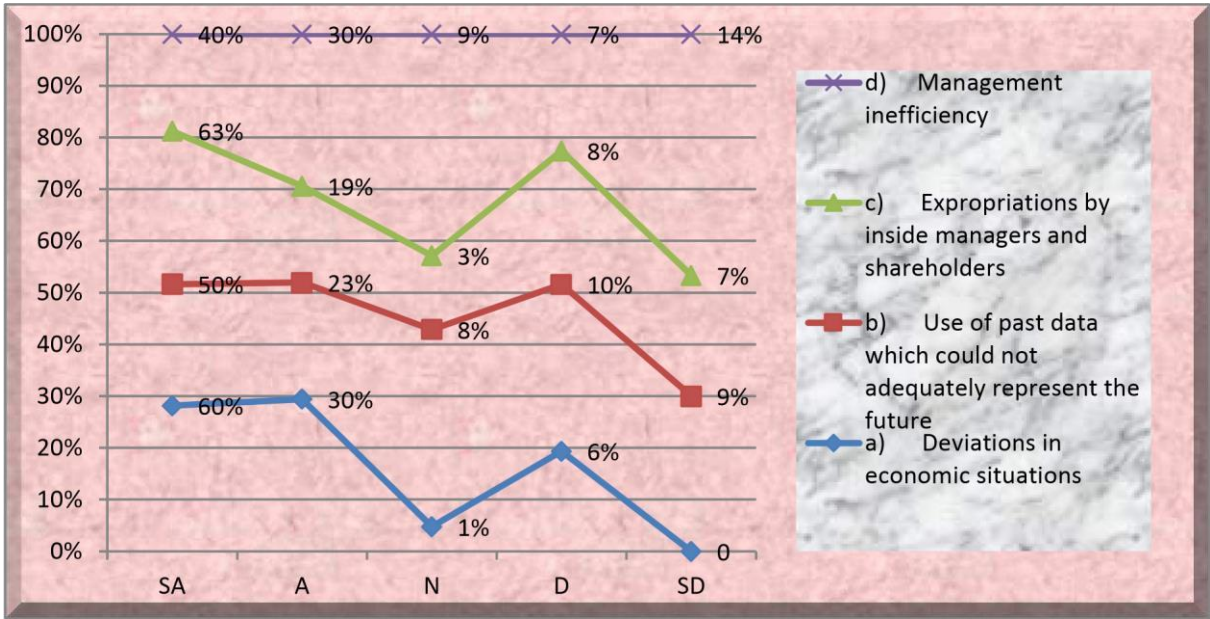
The use of different accounting conventions/methods is identified as yet another challenge faced by the bank management as they measure return on asset. For instance, other banks use the straight-line depreciation method while others use declining balance method to prepare statement of finance. Hence the use of such different methods by the different commercial banks within the same banking industry poses some challenges to measuring return on asset as it gives misleading information. On this, up to 48% of the respondents strongly agreed that the use of different accounting methods is a great challenge to measuring return on asset. 23% agreed while 7% remained neutral. 13% disagreed and 9% strongly disagreed. On lack of accuracy in information presented on financial statements, 58% of the respondents strongly agreed that it is a challenge when it comes to measuring ROA. 26% agree, 4% are neutral, 5% disagreed and 7% strongly disagreed.

Figure 5 A line chart showing challenges faced in measuring Return on Equity (ROE) by bank management



With regards to ROE as one of the performance indicators in the sampled banks, the views of the respondents are also sought on which challenges they consider most prominent in measuring return on equity. As shown on the line graph in Figure 5 above, 30% of them strongly agreed that changes in the business environment are one of the profound challenges to measuring return on asset. This is because value of assets both increase and decrease over time hence it becomes difficult to ascertain the exact return on them. 21% agreed with the above statement, but 16% of the respondents are neutral as 19% disagreed and 14% of them strongly disagreed. Just as is with the case of ROA, the use of different accounting methods is also cited to one of the challenges faced in measuring ROE and to this fact, up to 55% of the respondents strongly agreed, 27% agreed, and 9%are neutral. Nevertheless, 6% of the respondents disagreed and 3% strongly disagreed. Another challenge the bank management faced in measuring ROE is lack of accuracy in predicting the future. This has kept both the equity owners and the managers in dilemma as news about the future cannot be accurately forecasted using current data. Hence this poses a challenge, and a greater percentage of up to 60% of the respondents strongly agree with that fact, 20% agreed, and only 2% of them are neutral. On the other hand, 8% disagreed and 10% strongly disagreed.

Figure 6 A line chart showing challenges faced bank in measuring Net Profit Margin (NPM) by Bank manage



The respondents are also requested to express their view on what they think are the challenges management face in measuring NPM as a performance indicator. As revealed in the line chart in figure 6 above, 40% of the respondents strongly agreed that management inefficiency is a challenge faced in measuring NPM. 30% of them agreed, 9% are neutral, 7% disagreed and 14% strongly disagreed. On expropriations by inside managers and shareholders as a challenge, up to 63% agreed strongly, 19% agreed as 3% are neutral. 8% did not agree and 7% strongly disagreed.

About the challenge posed by use of past data for future forecast, 50% of the respondents strongly agreed, 23% agreed, but 8% of them are neutral. 10% disagreed and 9% strongly disagreed. Deviation in economic situations is also singled out as one of the challenges to measuring NPM. To this, a total percentage of 60% of the respondents strongly agreed, 30% of them agreed. Only 1% remained neutral as 6% of the respondents disagreed. None of the respondents strongly disagreed.

Based on the direction taken by the views of the respondents, the researcher therefore asserted that the above challenges are of detrimental impact to measuring return on the shareholder assets, return on equity as well as net profit margin and if not remedied, would reduce the value and credibility of the firm people will eventually lose trust in the firm. This explains why the majority of the respondents agreed these challenges are responsible in impeding the measurement of return on asset in the sampled commercial banks. As a remedial action for the challenges identified and analyzed above, several potential solutions are suggested by the researcher for each challenge faced in measuring each of the performance indicators.

Table 4 Possible solutions to the problems faced in measuring performance indicators in the sampled commercial bank

|                          |            |           |           |           |            |
|--------------------------|------------|-----------|-----------|-----------|------------|
| i. Return on asset (ROA) |            |           |           |           |            |
|                          | SA = 1 (%) | A = 2 (%) | N = 3 (%) | D = 4 (%) | SD = 5 (%) |

|                                                                                                                                                                                                              |            |           |           |           |            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------|-----------|-----------|------------|
| a) Recruitment of the right people with the right qualification/skills and competency                                                                                                                        | 56         | 33        | 2         | 6         | 3          |
| b) Increase in transparency with which financial information is prepared                                                                                                                                     | 61         | 20        | 7         | 7         | 5          |
| c) Use of accounting system which is reliable and unanimously agreed upon.                                                                                                                                   | 51         | 26        | 3         | 9         | 11         |
| d) Use of both quantitative and qualitative data                                                                                                                                                             | 30         | 42        | 13        | 10        | 5          |
| ii. Return on Equity (ROE)                                                                                                                                                                                   |            |           |           |           |            |
|                                                                                                                                                                                                              | SA = 1 (%) | A = 2 (%) | N = 3 (%) | D = 4 (%) | SD = 5 (%) |
| a) Limiting the board size                                                                                                                                                                                   | 36         | 14        | 5         | 25        | 20         |
| b) Use of proper forecasting tools which are both quantitative and qualitative like regression, Delphi method, scenario analysis etc.                                                                        | 50         | 24        | 6         | 12        | 8          |
| c) Use of only one accounting method acceptable to all the board members and other key stake holders                                                                                                         | 54         | 27        | 5         | 9         | 5          |
| d) Modelling the bank's operation to suit the different economic dynamisms                                                                                                                                   | 27         | 16        | 3         | 25        | 29         |
| iii. Net Profit Margin                                                                                                                                                                                       |            |           |           |           |            |
|                                                                                                                                                                                                              | SA = 1 (%) | A = 2 (%) | N = 3 (%) | D = 4 (%) | SD = 5 (%) |
| a) Adoption of flexible decisions in the face of different situations whether economic, political or social.                                                                                                 | 36         | 14        | 5         | 25        | 20         |
| b) Use data that can adequately represent/forecast the future economic events and the bank's performance with a considerable degree of accuracy. e.g time series data, panel data, cross sectional data etc. | 50         | 24        | 6         | 12        | 8          |
| c) Enhancement of strong supervision on the internal activities of the management                                                                                                                            | 59         | 27        | 3         | 7         | 1          |

|                                                                                                                                                                                                                   |    |    |    |    |    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|----|----|----|----|
| d) Employing highly qualified, experienced and competent managers who will constantly be reshaped through on job trainings to adopt new systems that suit changes in the economy as well as customer preferences. | 40 | 20 | 10 | 20 | 10 |
| The views of respondents; SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree                                                                                                       |    |    |    |    |    |

### Descriptive statistics of the study variables

As displayed in Table 4 which examines potential solutions to problems faced in measuring various performance indicators among the sampled commercial banks using the 5-point Likert scale, for Return on Assets the majority of respondents either Strongly Agreed or Agreed that recruiting qualified personnel with appropriate skills and competencies as endorsed by 56% and 33%, increasing transparency in financial reporting as supported by 61% and 20%, and adopting a reliable and agreed upon accounting system as acknowledged by 51% and 26% would be effective remedies, while for Return on Equity employing proper forecasting tools incorporating both quantitative and qualitative aspects as agreed by 50% and 24% in addition to using a single accepted accounting method as believed by 54% and 27% seemed suitable solutions, and as for Net Profit Margin enhancing strong supervision of internal management activities as strongly agreed by 59% and agreed by 27% together with selecting highly qualified and continuously trained managers as considered by 40% and 20% were viewed as potential palliatives.

**Table 5 Descriptive statistics of the study variables**

| Variables | Mean      | Maximum | Minimum | Std. div. | Observations |
|-----------|-----------|---------|---------|-----------|--------------|
| ROA       | 5.598385  | 7.5     | 4.5     | 0.911706  | 130          |
| ROE       | 31.59231  | 42      | 27      | 4.35569   | 130          |
| NPM       | 33.60769  | 55      | 26      | 8.299151  | 130          |
| BS        | 7.769231  | 15      | 4       | 3.005263  | 130          |
| BGDFD     | 2.138462  | 4       | 1       | 0.8045784 | 130          |
| BMEQ      | 7.484615  | 12      | 5       | 2.459705  | 130          |
| BMBME     | 4.784615  | 7       | 2       | 1.628166  | 130          |
| ACS       | 3.8631538 | 7       | 2       | 1.362589  | 130          |

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|     |          |    |   |          |     |
|-----|----------|----|---|----------|-----|
| BGR | 12.43077 | 16 | 8 | 2.893292 | 130 |
|-----|----------|----|---|----------|-----|

**Stata IC 12 Summary statistics results based on the secondary data collected from the banks sampled**

As presented on table 5 above, the average value of return on asset (ROA) for the sampled Uganda commercial banks is 5.6 with maximum and minimum values of 7.5 and 4.5 respectively. The deviation from the mean value is 0.91. On the other hand, the average value for the return on equity (ROE) for the sampled commercial banks is 31.59 and the maximum and minimum values of 42 and 27 respectively. It deviates from the average values of the sampled commercial by 4.36. The financial performance of the sampled commercial banks that is measured by the net profit margin (NPM) for the four years averaged 33.61. The maximum value of the net profit margin is 55.0, the minimum value is 26.0 and it shows a deviation of 8.29 from the mean value.

Therefore, by comparing values of the three indicators of financial performance of the sampled commercial banks based on the above table, it can be observed that the commercial banks are doing relatively better as far as their financial performances are concerned. As seen in the table, the net profit margin which is used to measure the banks financial performance has the highest mean value of 33.61 whereas return on equity and return of asset have 31.59 and 5.39 respectively hence indicating that in the sampled commercial banks, shareholders equity is been utilized optimally to generate such a profit margin (Annet et al., 2023).

It can also be seen from the table that the financial performance of the sampled banks measured by the net profit margin (NPM) comes first, return on equity (ROE) is second and return on asset (ROA) comes last if they are ranked from the highest to the lowest values in terms of their maximum and minimum values.

On the bases of standard deviation from the mean values, net profit margin (NPM) shows a higher standard deviation 8.3 while the deviations from the mean values for return on equity and return of asset are 4.35 and 0.91 respectively. If the deviations of these three performance indicators for the sampled commercial are ranked, that for net profit margin still shows a higher value of deviation from the mean value followed by the deviation from the mean value for return on equity and lastly that for return on asset which has the lowest deviation in comparison to that of net profit margin and return on asset respectively. Therefore generally, the different values presented on the table for the four sampled commercial banks on the performance indicators are not the same in all the different aspects of the descriptive statistics. However, based on the analysis of the overall deviations from the mean values of the performance indicators for the four sampled commercial banks, it can be seen that the deviations are so far not by larger extents hence suggesting that the banks performed very well in the duration on which this study dwelt which is from 20011 to 2013. It is confirmed from the table above that the average board size for the sampled commercial banks is about 8 members (mean = 7.769231) with a maximum of 15 and a minimum of 4 directors respectively. The indications from the standard deviation reveal that for the sampled commercial banks in the Republic of Uganda, board size varies by 3.0 from the average value of 7.77. The standard deviation 3.0 suggests that there is a wide disparity in board size.

On average, about 2 of the directors in the sampled commercial banks are females (mean = 2.138462) as measured by the number of female directors divided by the total number of directors. This is quite a disappointing figure. It suggests that the gender diversity of the sampled Uganda commercial banks board members as measured by the proportion of directorship held by women is very

low as revealed by its mean value of only 2.14 in the past four years. This shows that the sampled banks do not have a proportional number of female directors with respect to male directors.

It can also be seen that the mean value of board member educational qualification as measured by the proportion of directors holding a college degree or higher is 7.48 which implies that the directors in the sampled commercial banks possess the necessary educational qualifications. The proportion of board members educational qualifications shows a value of 2.46 for the standard deviation which is more or less low as evidenced by the maximum and minimum values of 12 and 5 respectively.

As seen in the above table, the average number for board members business management experience as measured by the proportion of directors who had business management experience is about 5 members (mean = 4.784615) with a maximum and minimum values of 7 and 2 respectively. These figures suggest that a small number of the board member of the sampled Uganda commercial banks have vast experience in general business management. The variation from the mean value is by 1.63

The audit committee size of the sampled commercial banks has an average size of about 4 members (mean = 3.861583) with a maximum of 7 members and minimum of 2 members. This number of the audit committee members varies from the average by about 3 members (standard deviation = 1.362589) (Nelson et al., 2023).

Finally, the sampled commercial banks growth rate as measured in terms of revenue accumulation over the four years period under study has a mean value of 12.43 with maximum and minimum values of 16 and 8 respectively. This suggests that the sampled commercial banks had been very progressive in growth over the period under study.

### **Conclusions**

This study investigates the impact of corporate governance on the performance of banks by sampling four commercial banks in the Republic of Uganda Based on the results of the descriptive statistics, qualitative analysis and regression analysis, the researcher is able to come with the following conclusions;

With regards to the descriptive statistics, the average financial performance of the sampled commercial banks are 5.59, 31.59 and 33.61 respectively as measured by return on asset, return on equity and net profit margin. Hence this indicated that the sampled commercial banks are performing better in utilizing shareholder capital. The researcher attributed this to performance to the fact that the country is still young with a huge potential particularly in the banking sector. The board of directors in the sampled commercial banks is characterized by the presence of relatively qualified directors and with small business experience. However, the banks are dominated by male directors and the number of female directors on board is extremely low.

The result from qualitative analysis where tables, bar graphs and line graphs are utilized to digest the views of respondents from the sampled commercial banks indicates that corporate governance is of great importance to the commercial banks and all the corporate governance variables have significant impact on the performance of the sampled commercial banks. This is evidence by the fact that majority of them vehemently and unanimously agreed on those realities. The analysis also revealed that much as corporate governance is crucial in the sampled bank, there are nevertheless problems faced in measuring the different performance indicators in the banks sampled. However, suggested solutions are put forward and according to the view of the respondents, those solutions could adequately solve the various problems management face in measuring each of the performance indicators.

### **Recommendations**

This study examined the impact of corporate governance on the performance of the sampled commercial banks in the Republic of Uganda. On the bases of the findings and the conclusions reached, the researcher hereby advances the following recommendations;

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This study reveals that the boards of the sampled commercial banks are dominated by male directors and therefore board members gender diversity is highly asphyxiated. In this respect, qualified, competent and experienced females should be highly encouraged and included into the board so that the banks may enjoy the benefits accruing from diverse view point in decision making as a result of having female directors on board.

Attention should be given to board size by making it remain as small as possible by containing minimal number of highly qualified directors with more competency and vast experience in business management especially in financial related institution as this may improve on the performance of the banks and avoid coordination, communication and decision-making problems as a consequence of unnecessarily large

board size that impede the firm's performance.

The researcher also recommends that the commercial banks in the Republic of Uganda should strive towards maintaining a minimal number of members in the audit committee as revelation from the study indicate negative impact and influence on most of the banks' performance indicators. This is because of the fact that too big audit committee size brings about issues of consensus and too small sized committee is susceptible to manipulations by strong headed and influential managers and inside shareholders which may derail the transparency with reports are expected to be compiled and presented.

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