MAKERERE UNIVERSITY

CORPORATE GOVERNANCE, CAPITAL STRUCTURE AND
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

BY

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DECLARATION

I Obuni Richard Madrara, declare to the best of my knowledge that, this dissertation is my original work which has never been published and/or submitted for any award in any other University.

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APPROVAL

This is to certify that this research report had been submitted with our approval as University Supervisors.

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DEDICATION

I dedicate this research report to the Almighty God, who always opens opportunities for me, my father, mother, wife and my children at large.
ACKNOWLEDGEMENTS

I wish to extend my sincere and gratitude, to my supervisors Dr. Isaac Kayongo and Mr. Nkuutu Geoffrey., for their time, advice and guidance accorded to me, and never got tired of guiding me and correcting my mistakes and showing me the right way I needed to complete the dissertation. I will always incline to work with you. Thank you very much may God bless you abundantly.

I will forever be beholden to my research respondents for the time they took filling my questionnaires and their willingness to give me the vital information that was necessary for the study given their busy schedules.

Lastly and most importantly, I wish to thank the almighty God for giving me health, wisdom and knowledge that enabled me do this work and for the continuous support where I couldn’t handle.

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The purpose of the study was to establish the relationship between corporate governance, capital structure and financial performance. The study adopted a cross sectional design which was quantitative descriptive in nature. It involved descriptive and analytical research designs. The study sample comprised of 21 commercial banks selected by simple random sampling and 130 respondents who were selected through purposive sampling. The data was tested for reliability, analyzed using SPSS and results presented based on the study objectives.

Results revealed a significant positive relationship between corporate governance and capital structure, capital structure and financial performance, and corporate governance and financial performance. Findings further indicated that corporate governance was a better predictor of financial performance in banks. This implies that banks should put in place mechanisms that ensure proper implementation of corporate governance practices. The study concluded that corporate governance and capital structure significantly affect financial performance in banks. Therefore the researcher recommended that banks should have operational governance mechanisms in place which could shape the choice of financing hence resulting to better financial performance.
CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Corporate governance refers to how companies ought to be run, directed and controlled. It is about supervising and holding to account those who direct and control the management. It is believed that, good governance generates investor goodwill and confidence. Gompers et al. (2003) assert that, good corporate governance increases valuations and boosts the bottom line. Claessens et al. (2002) also maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders.

Good governance is characterized by transparency, accountability, board size, board composition, disclosure and compliance. However, history of many developing countries like Uganda has been marked by a domineering role by the government in commercial banks most of them have been owned by the government and individuals without clear guidelines in their operations (Onyach, 1995). This has created no opportunity for an environment of transparency and accountability considering the manner in which the enterprises were operated. Directors and Executives were appointed by the government to manage government banks, this later undermined the rationale of efficiency, effectiveness and ultimately the financial performance. Besides, most of the banks reported declining profits and losses. For instance Insider lending stood at Ushs.22,722 million representing 47 percent of customer deposits, credit was extended on sole instructions of the managing director without any or minimal documentation,
and the banks were not able to clear their obligations which lead to their closure in 1999. (BOU Report, 1999), the same BOU report show that, though these banks closed, Crane Bank is still having the problem of one-man management syndrome of corporate governance

Besides corporate governance, commercial banks have aggressively focused on expanding their capital base. The capital structure is mainly focused on debt. However this choice of financing has led most commercial banks into increased impaired losses and provisions for bad debts as evidenced in the Ugandan case. Pinegar and Wilbricht (1989) argue that capital structure can be used through increasing the debt level and without causing any radical increase in agency costs. Evidence indicates that Loans and advances, which comprised 32.95 percent of total assets, declined by 24.42 percent, and the efficiency ratio deteriorated from 35.07 percent to 31.65 percent (Stanbic, 2009).

Despite the existence of weak governance mechanisms and weak capital structure, the financial performance of commercial banks has continuously deteriorated over years. Evidence reveals that for instance, UBA in 2008 reported a loss of 5,019,436/=, 2009 the loss increased to 9,383,727/= (UBA- Report, 2009). Bank of Africa’s financial performance has 2004/2005 reported 0% increase in profit compared to2003/2004 42% profit increase, The bank in 2005/2006 reported 29% increase in the profit but in 2006/2007 profits reduced by 16%. In 2007/2008 there was 80% profit increase but in 2008/2009 profit still reduced by 6.3%. Customers’ deposits reduced by 28% in 2005/2006 compared to an increase of 19% in 2004/2005. The bank have also registered a declining loan performance, in 2008/2009, 323%. in 2006/2007 it registered 478% showing a decline of 155%.(BOA-Uganda 2009); Barclays
Banks performance has been continuously declining over the last three years 2006/2007 1.25% decline, 2007/2008 15.1% decline, 2008/2009 24% similarly the customers’ deposits and loan performance are taking the same direction. The review by the internal audit 2008/2009 indicates financial performance decline is due to the structural problems it inherited from Nile Bank ltd Feb, 2007.

1.2 Statement of the problem.

The financial performance of commercial banks has continuously deteriorated over years as evidenced in the annual reports which indicate decline in customers’ portfolio, decline in loan performance, increased number of loan defaults and fraud cases among others. For instance banks like Barclays, UBA, Bank of Africa and others have greatly been affected by continued poor financial performance. This could be attributable to poor corporate governance mechanisms in place (Bank of Uganda report) and weak capital structure (Commercial annual reports). If these are not correctly analyzed, then the poor financial performance is bound to rise in these institutions.

1.3 Purpose of the Study

The study investigated the relationship between corporate governance, capital structure and financial performance of Commercial Banks in Uganda.

1.4 Objectives of the Study

i) To examine the relationship between corporate governance and capital structure of commercial banks in Uganda.
ii) To examine the relationship between corporate governance and financial performance of commercial banks in Uganda.

iii) To examine the relationship between capital structure and financial performance of commercial banks in Uganda.

1.5 Research Questions

i) What is the relationship between corporate governance and capital structure of commercial banks in Uganda?

ii) What is the relationship between corporate governance and financial performance of commercial banks in Uganda?

iii) What is the relationship between capital structure and financial performance of commercial banks in Uganda?

1.6 Scope of the Study

Subject Scope

The study focused on corporate governance, capital structure and financial performance.

Geographical Scope

The study focused on all the commercial banks in Uganda and the study was majorly carried out in Kampala.
1.7 **Significance of the Study**

i) The findings of the study would help policy makers more so in the private and public business sectors to design proper strategies regarding how corporate governance could be followed.

ii) The findings of the study would enable corporations to improve on their corporate governance mechanisms which would in turn improve their financial performance.

iii) The study findings would give insights and add on empirical evidence in the areas of corporate governance, capital structure and financial performance for future academic research.
1.8 Conceptual Framework

The conceptual framework was developed from existing literature as illustrated in Figure 1.1, the model illustrates the relationship between corporate governance, capital structure, and financial performance.

Figure 1.1: Conceptual framework for the study

Source: Self developed from literature review from previous scholars

Description of the model

Corporate governance brings the interests of investors and managers into line and ensuring that firms are run for the benefit of investors. Effective corporate governance mobilizes the capital annexed with the promotion of efficient use of resources both within the company and the larger economy. It also assists in attracting lower cost investment capital by improving domestic as well as international investor’s confidence. Gompers et al. (2003) asserts that,
good corporate governance increases valuations and boosts the bottom line. Claessens et al. (2002) also maintain that better corporate frameworks benefit firms through greater access to financing; lower cost of capital, better performance and more favourable treatment of all stakeholders and hence improved financial performance.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing literature on corporate governance, capital structure and financial performance as discussed by different authors. It brings out an appreciation of what has been done on the variables under study but also, the gaps that were identified in the existing body of literature that makes the focus of this study.

2.2 Corporate governance

Corporate Governance refers to the way an organization is directed, administrated or controlled. It includes the set of rules and regulations that affect the manager’s decision and contribute to the way company is perceived by the current and potential stakeholders. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as; boards, managers, shareholders and other stakeholders and spells out the rules and procedures and also decision making assistance on corporate affairs. By doing this, it also provides the structure through which the company’s objectives are set and the means of obtaining those objectives and monitoring performance.

Corporate governance may be the ways of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors. Effective corporate governance mobilizes the capital annexed with the promotion of efficient use of resources both within the company and the larger economy. It also assists in attracting lower cost investment capital by improving domestic as well as international investor’s confidence.
Good corporate governance ensures the accountability of the management and the Board. The Board of directors will also ensure legal compliance and take impartial decisions for the betterment of the business. It is understood that efficient corporate governance will make it difficult for corrupt practices to develop and take root, though it may not eradicate them immediately. Corporate governance swivel around some important aspects such as Role of board of directors, Basic structure of board of directors, its remuneration, Ownership of director, Availability of freedom to an enterprise, Role of services of institutional directors, Accountability of member of BoD, Financial reporting, Institutionalization of audit functions and Linkage with shareholders. Good corporate governance can add value to developing sound corporate management and enriching the results of corporate entities for society in general and shareholders in particular to be the beneficiaries.

Corporate governance is also about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. It is also about how to build trust and sustain confidence among the various interest groups that make up an organisation. Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society’s conception of the scope of corporate accountability (Deakin and Hughes, 1997).

According to Keasey et al. (1997), corporate governance includes the structures, processes, cultures and systems that engender the successful operation of the organisations. Corporate
governance is seen as the whole set of measures taken within the social entity (enterprise) to favour the economic agents to take part in the productive process, in order to generate some organisational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organisation (Maati, 1999). The Cadbury Committee defines a governance system as ‘‘the system by which companies are directed and controlled’’ (Cadbury, 1992).

Corporate governance systems may be thought of as mechanisms for establishing the nature of ownership and control of organisations within an economy. In this context, corporate governance mechanisms are economic and legal institutions that can be altered through the political process – sometimes for the better (Shleifer and Vishny, 1997). Company law, along with other forms of regulation (including stock exchange listing rules and accounting standards), both shape and are shaped by prevailing systems of corporate governance. The impact of regulation on corporate governance occurs through its effect on the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Chung et al. (2008), which identified corporate governance factors such as ownership structure, board of directors, outside directors and institutional investor ownership.

2.3 Financial performance.

Financial performance looks at the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added (Hillman & Keim, 2001). It’s an approximation for financial success (Birlay and
Westheed, 2001). It’s also the rate at which an enterprise is satisfied with profits or the way they rank their performance in comparison to main competitors (Brooks & Wright, 1999). Waddock and Graves (1997) and Cochran and Wood (1984) state that accounting measures of Return on equity, Return on assets and Return on investment are used to measure financial performance of an organization.

ROE (Return on Equity) is used a great deal in economic literature (Bowman and Haire 1975, Bregdon and Marlin, 1972, Preston and Bannon, 1997). ROE is equal to a fiscal year's net income (after preferred stock dividends but before common stock dividends) divided by total equity (excluding preferred shares), expressed as a percentage. It measures the rate of return on ownership interest (shareholders' equity) of common stock owners. It measures a firm's efficiency at generating profits from every dollar/euro of net assets (assets minus liabilities), and shows how well a company uses investment dollars/euros to generate earnings growth.

ROA (Return on Assets) shows how profitable company’s assets are in generating revenue. It is given by the ratio between net income and total assets. This ratio tells us what the company can do, with what it's got that is how many dollars/euros of earnings they derive from each dollar/euro of assets they control. It is a useful number for comparing competing companies in the same industry. The number will vary widely across different industries. Return on assets gives an indication of the capital intensity of a company, which will depend on the industrial sector. Companies that require large initial investments will generally have lower returns on assets. This parameter is widely used in the literature (Waddock and Graves 1997, Preston 1997, McWilliams and Siegel 2001, Luce, Barber and Hillman 2001).
ROCE (Return on Capital Employed) is used in finance as a measure of the returns that a company is making from capital employed. It is commonly used as a measure for comparing the performance between businesses and for assessing whether a business generates enough returns to pay for its cost of capital. It is given by the ratio between the pre-tax operative profit and the capital employed (Preston & Bannon, 1997).

Zhiwu and Knez (1996) argues that, primary business activity of commercial banks is lending and therefore the loan portfolio represents one of the largest assets and a predominate source of revenue. It is also a great source of risk to a bank’s soundness. Whether due to lax credit standards, poor portfolio risk management, or weaknesses in the economy, loan portfolio problems have historically been the major cause of bank losses and failures. Preston and Bannon (1997) add that while annual audits of loan portfolios may address these risks, experience has revealed that continuous monitoring of the portfolio is the preferred approach. Identifying control breaches, anomalies and high risk activities early and employing a firm remediation strategy often prevents and certainly minimizes the impact of any potential impairment of the portfolio.

2.4 Corporate governance and capital structure

Corporate governance refers to how companies ought to be run, directed and controlled. It is about supervising and holding to account those who direct and control the management. It is believed that, good governance generates investor goodwill and confidence. Gompers et al. (2003) assert that, good corporate governance increases valuations and boosts the bottom line.
Claessens et al. (2002) also maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders.

Maximiliano Gonzales (2008) evaluated the capital structure determinants of Latin American firms using comprehensive sample covering seven countries. This study argues that ownership-concentrated firms avoid issuing equity because they do not want to share control rights (Gonzalez, Maximiliano and Cespedes, Lacelly, 2010).

Capital structure can be analyzed by looking at the rights and attributes that characterize the firm’s assets and that influence, with different levels of intensity, governance activities. Equity and debt, therefore, must be considered as both financial instruments and corporate governance instruments (Williamson, 1988): debt subordinates governance activities to stricter management, while equity allows for greater flexibility and decision making power. It can thus be inferred that when capital structure becomes an instrument of corporate governance, not only the mix between debt and equity and their well known consequences as far as taxes go must be taken into consideration. The way in which cash flow is allocated (cash flow right) and, even more importantly, how the right to make decisions and manage the firm (voting rights) is dealt with must also be examined. For example, venture capitalists are particularly sensitive to how capital structure and financing contracts are laid out, so that an optimal corporate governance can be guaranteed while incentives and checks for management behavior are well established (Zingales, 2000)
On one hand, a change in how debt and equity are dealt with influences firm governance activities by modifying the structure of incentives and managerial control. If, through the mix of debt and equity, different categories of investors all converge within the firm, where they have different types of influence on governance decisions, then managers will tend to have preferences when determining how one of these categories will prevail when defining the firm’s capital structure. Even more importantly, through a specific design of debt contracts and equity it is possible to considerably increase firm governance efficiency.

On the other hand, even corporate governance influences choices regarding capital structure. Myers (1984) and Myers and Majluf (1984) show how firm financing choices are made by management following an order of preference; in this case, if the manager chooses the financing resources it can be presumed that she is avoiding a reduction of her decision making power by accepting the discipline represented by debt. Internal resource financing allows management to prevent other subjects from intervening in their decision making processes. De Jong (2002) reveals how in the Netherlands managers try to avoid using debt so that their decision making power remains unchecked. Zwiebel (1996) has observed that managers don’t voluntarily accept the “discipline” of debt; other governance mechanisms impose that debt is issued. Jensen (1986) noted that decisions to increase firm debt are voluntarily made by management when it intends to “reassure” stakeholders that its governance decisions are “proper”.

Claessens et al. (2002) maintain that better corporate governance frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more
favourable treatment of all stakeholders. Corporate governance affects the development and functioning of capital markets and exerts a strong influence on resource allocation. Corporate governance correlates with the financing decisions and the capital structure of firms (Abor, 2007). However, management incentives that include stock options introduces issues for the alignment of managerial and shareholder interests. Jensen (1986) postulates that large debt is associated with larger boards. Though Berger et al. (1997) concludes on a later date that larger board size is associated with low leverage; several other studies conducted in recent times have refuted this conclusion.

Wen et al. (2002) posit that larger board size is associated with higher debt, either to improve the firm’s value or because the larger size prevents the board from reaching a consensus on decisions, indicating a weak corporate governance system. Anderson et al. (2004) further indicate that larger board size results in lower cost of debt, which serves as a motivation for using more debt and this has been confirmed by Abor (2007) who concludes that capital structure positively correlates with board size, among Ghanaian listed firms. In relation to the presence of external directors on the board, Wen et al. (2002) conclude that the presence of external directors on the board leads to lower leverage, used by the firm, due to their superior control. However, Abor (2007) concludes that capital structure positively correlates with Board composition among Ghanaian listed firms. And this is consistent with Jensen (1986) and Berger et al. (1997) who had earlier on concluded that firms with higher percentage of external directors utilize more debt as compared to equity.
2.5 Capital structure and financial performance

Capital structure is described as a combination of debt and equity in long-term financing of the operations of firms. The capital structure of banks is skewed towards more debt and less equity. Van Horne and Wachowicz (2008) identified debts, preferred stock and common stock as components of capital structure discourse. In reality, however, firms use only debt and common stock as the basis of their capital structure. According to Kimball (1998), return on assets does not take into consideration the importance of the opportunity cost and return on equity ignores the different required rate of returns expected by the shareholders since their capital has been invested in different risky projects. Denizer (1997) states that return on equity might not be the best measure since banks can divide the capital into debt and equity, making the comparison of equity values across banks difficult.

Capital structure, otherwise referred to as, financial structure, is the means by which an organization is financed. It is the mix of debt and equity capital maintained by a firm. The extant literature is awash with theories on capital structure since the seminal work of Modigliani and Miller (1958). How an organization is financed is of paramount importance to both the managers of firms and providers of funds.

Brigham and Gapenski (1996) argue that an optimal capital structure can be attained if there exist a tax sheltering benefits provided an increase in debt level is equal to the bankruptcy costs. They suggest that managers of the firm should be able to identify when the optimal capital structure is attained and try to maintain it at that level. This is the point at which the financing costs and the cost of capital are minimized, thereby increasing firm value and
Jensen and Meckling (1976) and Jensen and Ruback (1983) argue that managers do not always run the firm to maximize returns to shareholders. As a result of this, managers may adopt non-profitable investments, even though the outcome is likely to be losses for shareholders. They tend to use the free cash flow available to fulfill their personal interest instead of investing in positive Net Present Value projects that would benefit the shareholders. Jensen (1986) argues that the agency cost is likely to exacerbate in the presence of free cash flow in the firm. In order to mitigate this agency conflict, Pinegar and Wilbricht (1989) argue that capital structure can be used through increasing the debt level and without causing any radical increase in agency costs. This will force the managers to invest in profitable ventures that will be of benefit to the shareholders. If they decide to invest in non-profitable projects and they are unable to pay the interest due to debt holders, the debt holders can force the firm to liquidation and managers will lose their decision rights or possibly their employment.

B.Nimalathasan & Valeriu Brabete (2010) pointed out capital structure and its impact on profitability: a study of listed manufacturing companies in Sri Lanka. The analysis of listed manufacturing companies shows that Dept equity ratio is positively and strongly associated to all profitability ratios (Gross Profit, Operating Profit & Net Profit Ratios). Brander and Lewis (1986) and Maksimovic (1988) provide the theoretical framework that links capital structure and market structure. Contrary to the profit maximization objective postulated in industrial organization literature, these theories are similar to the corporate finance theory in that they assume that the firm's objective is to maximize the wealth of shareholders. Furthermore, market structure is shown to affect capital structure by influencing the competitive behavior and strategies of firms.
2.6 Corporate governance and financial performance.

Corporate governance of banks seems to be more important than other industries because the banking sector plays a crucial financial intermediary role in any economy, particularly in developing countries. Poor corporate governance of the banks can drive the market to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a liquidity crisis and then it might lead to economic crisis in a country and pose a systemic risk to the society at large (Alexander, 2006; Garcia-Marco & Robles-Fernandez, 2008).

Jandik and Rennie (2008) in transition economies tries to evaluate the evolution of corporate governance practices and firm performance in a Czech manufacturing company. The results show that adoption of these practices (that included issues like concentration of ownership and improvements in monitoring) led to superior financial performance. There are several reasons why enhanced corporate governance may not lead to lower financial performance ratios as a result of the associated costs. Good governance practices can lead to improvements in terms of the decision making process of the company. Friend and Lang (1998) examine that shareholders, having high concentration in firms, play an important role to control and direct the management to take keen interest in benefit of the concentration group. However, corporate governance command also allows shareholders to direct the management for betterment of their investment. Shleifer et al. (1997) urged that concentration groups with large shareholdings; check the manager’s activities better. However, only the check and balance not only causes to reduce the agency cost but as well resolves the issues between managers and owners. Furthermore, Williamson (1988) examined
the relationship between corporate governance and securities. Jensen (1986) seems to be quite keen to analyze how corporate governance directly or indirectly influences the capital structure and firm value. Driffield et al. (2007) stated that higher ownership concentration has a positive impact on capital structure and firm value. In the other case, lower ownership concentration, the relationship depends upon the strictness of managerial decision making which enforce to bring change in the capital structure. Gompers et al. (2003) analyzed the relationship between corporate governance, long-term equity returns, firm value and accounting measures of performance, while Rob et al. (2004) found combined relationship between corporate governance, firm value and equity returns.

La Porta et al. (2000) defines corporate governance as a set of mechanisms through which outside investors protect themselves against expropriation by corporate insiders. The degree of expropriation by insiders depends on the investment opportunities available and the cost of expropriation to the firm. Johnson et al. (2000) and Durnev and Kim (2003) suggest that insiders expropriate more when the market is bad, and take less when the market is good. Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Shleifer and Vishny, 1997). If these mechanisms did not exist or did not function properly, outside investors would not lend to firms or buy their equity securities. Overall, economic performance would likely suffer because many good business opportunities would be missed and temporary financial problems at individual firms would spread quickly to other firms, employees and consumers. Previous evidence suggests that corporate governance has a positive influence over corporate performance. For example, based on industry-level view, Rajan and Zingales (1998) find that firms in industries that
require large amounts of external financing grow faster in countries with high scores on their measures of financial development. Thus, corporate governance (measured through better accounting standards, stronger legal protection of investors, and a stronger rule of law) appears to matter for corporate performance.

In addition, Gemmill and Thomas (2004) concluded in their respective study that there is a positive relationship between good corporate governance practices and firm value. Corporate governance may have an influence on the level of disclosure (Haniffa and Cooke, 2002) as well as timeliness of reporting, especially as it is the board of directors that manages information disclosure in annual reports (Gibbins et al., 1990). The quantity of information and especially voluntary items disclosed in the annual reports and the time the information to be released, are influenced by the board of directors. Thus, referring back to agency theory, when the board of directors are independent of the management and observe their responsibility to be accountable and transparent to the shareholders or stakeholders, they will disclose on time all the relevant information, not just the mandatory ones but also the voluntary items (Mohd et al., 2008).
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explained how the actual researchable problem was carried out. This included the specification of research design to be used, study population, sample size selection procedure, data source, measurement of variables, reliability and validity, data processing and analysis, and finally the limitations of the study.

3.2 Research design

The study adopted a cross sectional survey design and correlational design. Since the study was on examining the relationships between corporate governance, capital structure and financial performance. Only quantitative data was considered for the study.

3.3 Study population

The study population comprised of all the commercial banks in Uganda and a total of 23 registered commercial banks were considered for the study (Bank of Uganda Annual report, 2010).

3.4 Sample size and Procedure

The sample size was determined using Krejcie and Morgan, (1970) where a sample of 21 out of a population 23 was targeted. Simple random sampling was used to select the banks. Respondents were purposively selected basing on their knowledge and skills on the study.
variable and at least five respondents were selected from the sampled commercial banks. The units of inquiries were Branch managers, directors and board members.

3.5 Data sources

Primary data

The required primary data was collected from bank managers, directors and board members. This was done through administering Questionnaires with the help of a research assistant. Respondents were guided through the questionnaire to ensure accuracy in the data collection.

Secondary data

The secondary data was used to support the empirical findings of the study. This data was got from the company’s financial reports like the balance sheets and income statements, so as to establish the companies’ financial performance. Also other secondary data was obtained from published journal articles from publishers like the emerald publishing group previous dissertations by master’s students from the MUBS library.

3.6 Data collection instruments

The primary data was collected by administering questionnaires. The questionnaires contained structured questions relating to each study variable in the question. The questions relating to governance, capital structure and financial performance were constructed on five point likert scale. The respondents answered on how they agree or disagree with the statements in the Questionnaire.
3.7 Measurement of variables

The independent variables were corporate governance, capital structure and the dependent variable is financial performance. A structured standard questionnaire was used. The tool solicited responses on a five (5)-point Likert scale with the following verbal anchors: strongly disagree, disagree, not sure, agree and strongly agree.

**Corporate governance:** This was measured using dimensions of Shareholder’s rights, ownership concentration, board of director’s responsibilities, and transparency and disclosure as used by Wayne & Megan, 2002, Basel Capital Accord, 2003, Robert & Abbie, 2003.

**Capital Structure:** This was measured using scales adapted from Drobetz & Fix (2003). A five likert scale ranging from 1= Strongly Disagree to 5= Strongly Agree was used. The dimensions of capital structure were debt and equity.

**Financial performance** was measured basing on the scales developed by Demstez and villalong (2001), Thomsen et al (2006). The financial performance was measured using financial indicators such as return on assets, asset quality and earnings.

3.8 Reliability and Validity of instrument

A pre-test of the research instrument to establish their validity was done. The instrument was given to two experts to give their opinions on the relevance of the questions using a 5-point scale of relevant to not relevant. It was further pre-tested by administering it to probable respondents (n=10) to test for their understandability of the items. Items that were found not to be relevant were eliminated and those found not to be understood were adjusted for
understandability for the final research instrument that was used. The research instrument was examined for its reliability by using Cronbach alpha coefficient test (α) (Cronbach, 1951) so as to prove that the research instrument used to collect data from the respondents was appropriate and could yield similar results at all time. All the items included in the scale adopted from reviewing literature on corporate governance, capital structure and financial performance as shown in the table 2 below.

Table 1: Reliability and validity of the instrument

<table>
<thead>
<tr>
<th>Variable</th>
<th>Anchor</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance</td>
<td>5 Point</td>
<td>0.857</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>5 Point</td>
<td>0.932</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>5 Point</td>
<td>0.924</td>
</tr>
</tbody>
</table>

*Source: Primary data*

Results in Table 2 indicate that the instrument was reliable as the alphas for all the variables are above 0.7 as per Nunnally, 1978 as cited by Sarantakos (2005).

3.9 Data processing and analysis

The data collected was edited for incompleteness and inconsistence to; ensure correctness of the information given by the respondents by use of a computer. Statistical package for social scientists (SPSS) was used for data entry and analysis. Frequency tables were used to describe the sample characteristics of the respondents. Correlation analysis tool i.e. the Pearson’ correlation coefficient was used to establish the relationship between corporate governance, capital structure and financial performance. Multiple regression analysis was conducted to
determine variance in the dependent variable that was explained by the independent variables because there was more than one study variable affecting financial performance.

3.10 Limitations of the study

- The study focused on Commercial banks. This could limit the generalization of the findings from the study. However, given the limited time period, this study was gave a clear picture of the situation in Uganda which other studies will build on.
- Limited financial resources were a limiting factor to my study.
- Some respondent’s were hesitant to give all the required information, because of fear to expose it to the competitors. This was most likely cause a biased response. However, the researcher and the research assistant overcame this by spending time with the respondents to explain to them that the study is basically for academic purposes.

CHAPTER FOUR

RESULTS AND INTERPRETATION OF STUDY FINDINGS

4.0 Introduction

This chapter contains the results and the interpretation of the study findings. The presentation is guided by the research objectives. This chapter begins with the presentation of sample characteristics of the respondents and the surveyed banks.

The presentation was guided by the following research objectives;
i) To examine the relationship between corporate governance and capital structure in commercial banks.

ii) To examine the relationship between corporate governance and financial performance in commercial banks.

iii) To examine the relationship between capital structure and financial performance in commercial banks.

4.2 Sample Characteristics of the respondents and commercial banks

This section presents the characteristics respondents such as their gender, age bracket, number of years worked, level of education attained, ownership status, number of employees, and Tenure in operations. The results are presented in table form with generated respective frequencies.

4.2.1 Gender of the Respondents

Table 2: Shows the results on the gender of Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>71</td>
<td>54.6</td>
<td>54.6</td>
</tr>
<tr>
<td>Female</td>
<td>59</td>
<td>45.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>130</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Primary Data*

The results in table 2 above showed that the majority of the respondents were male with 54.6% while only 45.4% were female respondents. This implies that majority of respondents in commercial banks in Uganda were over dominated by male as per the study.
4.2.2 Age brackets of Respondents

Table 3: Shows the results on the age brackets of Respondents

<table>
<thead>
<tr>
<th>Age bracket</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25 years</td>
<td>14</td>
<td>10.8</td>
<td>10.8</td>
</tr>
<tr>
<td>25-35 years</td>
<td>16</td>
<td>12.3</td>
<td>23.1</td>
</tr>
<tr>
<td>35-45 years</td>
<td>90</td>
<td>69.2</td>
<td>92.3</td>
</tr>
<tr>
<td>45-55 years</td>
<td>6</td>
<td>4.6</td>
<td>96.9</td>
</tr>
<tr>
<td>Above 55 years</td>
<td>4</td>
<td>3.1</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>130</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Primary data*

Results from table 3 reveal that the majority of respondents had their age bracket ranging between 35-45 years with 69.2%, followed by the range of 25-35 years with 12.3% and the least was above 55 years with 3.1%.

4.2.3 Highest Qualification Attained by the respondents

The results showing the percentage proportion of respondents in relation to the highest qualification attained are presented in table 4 below.

Table 4: Shows the results on the education level of the respondents

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bachelors’ Degree</td>
<td>74</td>
<td>56.9</td>
<td>56.9</td>
</tr>
<tr>
<td>Professional</td>
<td>16</td>
<td>12.3</td>
<td>69.2</td>
</tr>
</tbody>
</table>
Results from table 4 show that the majority of respondents had bachelors’ degrees with 56.9%, followed by Masters’ degree with 30.8% and the least were professional qualifications with 12.3%. This means that majority of the respondents have the right skills and knowledge to respond to the study variables.

4.2.4 The length of service in the commercial banks by the respondents

Table 5: Shows the results on the length of service by the respondents

<table>
<thead>
<tr>
<th>Length of service</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>9</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>1-5 years</td>
<td>46</td>
<td>35.4</td>
<td>42.3</td>
</tr>
<tr>
<td>6-10 years</td>
<td>37</td>
<td>28.5</td>
<td>70.8</td>
</tr>
<tr>
<td>Above 10 years</td>
<td>38</td>
<td>29.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>130</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

Results from table 5 shows that the majority of respondents had worked for their banks for a period of 1-5 years with 35.4%, followed by a period of above 10 years with 29.2%, 6-10 years with 28.5% and the least was less than 1 year with 6.9%.
4.2.5 Ownership of the surveyed banks

Table 6: Shows the results on the ownership status of the banks

<table>
<thead>
<tr>
<th>Ownership status</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>3</td>
<td>14.3</td>
<td>14.3</td>
</tr>
<tr>
<td>Foreign</td>
<td>18</td>
<td>85.7</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Primary Data*

The results in table 6 above showed that the majority of the banks in Uganda are foreign owned with 85.7% while locally owned banks accounted for only 14.3%.

4.2.6 Number of years in operations by the commercial banks

Table 7: Shows the results on the number of years in operations

<table>
<thead>
<tr>
<th>Number of years in operations</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-5 years</td>
<td>7</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>6-10 years</td>
<td>6</td>
<td>28.6</td>
<td>61.9</td>
</tr>
<tr>
<td>11-16 years</td>
<td>3</td>
<td>14.3</td>
<td>76.2</td>
</tr>
<tr>
<td>Above 16 years</td>
<td>5</td>
<td>23.8</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: primary data*
Results from table 7 shows that the majority of the banks had stayed in operations for a period of 1-5 years with 33.3%, followed by a period of 6-10 years with 28.6%, above 16 years with 23.8% and the least was 11-16 years with 14.3%.

4.2.8 Number of employees in commercial banks

Table 8 below shows the findings on the number of employees in the banks.

Table 8: Shows the results on the number of employees in commercial banks.

<table>
<thead>
<tr>
<th>Employees</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Less than 200 employees</td>
<td>4</td>
<td>19.0</td>
</tr>
<tr>
<td>200-500 employees</td>
<td>6</td>
<td>28.6</td>
<td>47.6</td>
</tr>
<tr>
<td>501 - 700 employees</td>
<td>3</td>
<td>14.3</td>
<td>61.9</td>
</tr>
<tr>
<td>701 employees and above</td>
<td>8</td>
<td>38.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

Table 8 above shows that 38.1% of the commercial banks had their employees range 701 employees and above followed by 200-500 employees with 28.6%, less than 200 employees with 19.0% and the least had their employees range between 501-700 employees with 14.3%. 
4.3 Research objectives

4.3.1 Relationships between the Variables

The proceeding section presents the results of the stated objectives of the study. The Pearson (r) correlation coefficient was used to understand the nature of the relationships between the variables.

Table 9: Relationships between the variables

<table>
<thead>
<tr>
<th>Study Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate govern.</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital structure</td>
<td>.465**</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Financial perform.</td>
<td>.480**</td>
<td>.461**</td>
<td>1.000</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data

4.3.2 Corporate governance and capital structure

Results in Table 9 revealed a significant positive relationship between corporate governance and capital structure (r=.465**, p<.01). These results indicate that when banks improve on their corporate governance mechanisms, this would automatically lead to enhanced capital structure. Banks that respect the decisions from board, shareholders and are transparent tend to attract more customers, which in turn improves on the capital structure of the bank and vice versa.
4.3.3 Corporate governance and financial performance

Results in Table 9 revealed a significant positive relationship between corporate governance and financial performance (r=0.480**, p<.01). These results indicate that Poor corporate governance of the banks can drive the market to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a liquidity crisis and then it might lead to economic crisis in a country and pose a systemic risk to the society at large and vice versa.

4.3.4 Capital structure and financial performance

Results in Table 9 revealed a significant positive relationship between capital structure and financial performance (r=0.461**, p<.01). These results indicate that when banks improve on their capital structure, this automatically lead to improved financial performance in terms of increased net earnings, return on assets and asset quality.

4.4 Multiple Regression Analysis

The regression model was used to determine the degree to which corporate governance and capital structure can predict financial performance. This was done since there was more than one variable impacting on the dependent variable. Table 10 below presents the regression analysis results.

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 10: Multiple Regression Model explain the variance in financial performance
<table>
<thead>
<tr>
<th>Model</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-0.109</td>
<td>0.129</td>
<td>-0.844</td>
<td>0.400</td>
<td></td>
</tr>
<tr>
<td>Capital structure</td>
<td>0.437</td>
<td>0.700</td>
<td>0.445</td>
<td>6.215</td>
<td>0.000</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>0.585</td>
<td>0.084</td>
<td>0.498</td>
<td>6.960</td>
<td>0.000</td>
</tr>
</tbody>
</table>

**Dependent Variable: Financial performance**

<table>
<thead>
<tr>
<th>R Square</th>
<th>0.501</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R Square</td>
<td>0.493</td>
</tr>
<tr>
<td>Sig.</td>
<td>0.000</td>
</tr>
<tr>
<td>F Value</td>
<td>300.169</td>
</tr>
</tbody>
</table>

**Source: Primary Data**

The results in table 10 above show that the predictor variables can explain at least 49.3% of the variance in financial performance (Adjusted R Square = .493). The results further indicated that corporate governance (Beta = .498, Sig. = .000), was a better predictor followed by capital structure (Beta = .445, Sig. = .000). It means that a change in corporate governance leads to 0.498 positive changes in financial performance while capital structure contributes 0.445 positive changes in financial performance. The regression model was also observed to be significant (F= 300.169, Sig. <.01) and could thus be used to reliably make deductions and recommendations for commercial banks in line with financial performance.
CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study focused on the relationship between corporate governance, capital structure, and financial performance of commercial banks in Uganda. This chapter is divided into four sections; Summary and Discussion of findings, Conclusions, Recommendations and Areas for further study. These sections were guided by the study objectives.

5.2 Discussion of Findings

5.2.1 The Relationship between corporate governance and capital structure

The findings of the study indicate that there is a positive relationship between corporate governance and capital structure. This implies that when banks improve on their corporate governance mechanisms, this would automatically lead to enhanced capital structure. Banks that respect the decisions from board, shareholders and are transparent tend to attract more customers, which in turn improves on the capital structure of the bank and vice versa. This is consistent with Gompers et al. (2003) who assert that, good corporate governance increases valuations and boosts the bottom line. Claessens et al. (2002) also maintains that better corporate governance frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. Corporate governance affects the development and functioning of capital markets and exerts a strong influence on resource allocation. Corporate governance correlates with the financing decisions and the capital structure of firms (Abor, 2007). Jensen (1986) further postulates that
large debt is associated with larger boards. Though Berger et al. (1997) concludes on a later date that larger board size is associated with low leverage; several other studies conducted in recent times have refuted this conclusion. Wen et al. (2002) posit that larger board size is associated with higher debt, either to improve the firm’s value or because the larger size prevents the board from reaching a consensus on decisions, indicating a weak corporate governance system. Anderson et al. (2004) further indicate that larger board size results in lower cost of debt, which serves as a motivation for using more debt and this has been confirmed by Abor (2007) who concludes that capital structure positively correlates with board size, among Ghanaian listed firms. In relation to the presence of external directors on the board,

5.2.2 The Relationship between corporate governance and financial performance

The findings of the study further revealed a positive relationship between corporate governance and financial performance. This indicates that the more they governance mechanisms in place, the better the financial performance. This is in agreement with Johnson et al. (2000) and Durnev and Kim (2003) who suggests that insiders expropriate more when the market is bad, and take less when the market is good. Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Shleifer and Vishny, 1997). Shleifer et al. (1997) urged that concentration groups with large shareholdings; check the manager’s activities better. However, only the check and balance not only causes to reduce the agency cost but as well resolves the issues between managers and owners. Furthermore, Williamson (1988) examined the relationship between corporate governance and securities. Jensen (1986) seems to be quite keen to analyze how corporate
governance directly or indirectly influences the capital structure and firm value. Driffield et al. (2007) stated that higher ownership concentration has a positive impact on capital structure and firm value. In the other case, lower ownership concentration, the relationship depends upon the strictness of managerial decision making which enforce to bring change in the capital structure. Gompers et al. (2003) analyzed the relationship between corporate governance, long-term equity returns, firm value and accounting measures of performance, while Rob et al. (2004) found combined relationship between corporate governance, firm value and equity returns. Gemmill and Thomas (2004) concluded in their respective study that there is a positive relationship between good corporate governance practices and firm value. Corporate governance may have an influence on the level of disclosure (Haniffa and Cooke, 2002) as well as timeliness of reporting, especially as it is the board of directors that manages information disclosure in annual reports (Gibbins et al., 1990).

5.2.3 The Relationship between capital structure and financial performance

Findings show that there is positive relationship between capital structure and financial performance. This points out that a bank with stronger capital structures tend to high financial performance and vice versa. This is supported by Jensen (1986) who argues that the agency cost is likely to exacerbate in the presence of free cash flow in the firm. In order to mitigate this agency conflict, Pinegar and Wilbricht (1989) argue that capital structure can be used through increasing the debt level and without causing any radical increase in agency costs. This will force the managers to invest in profitable ventures that will be of benefit to the shareholders. B.Nimalathasan & Valeriu Brabete (2010) pointed out capital structure and its impact on profitability: a study of listed manufacturing companies in Sri Lanka. The analysis
of listed manufacturing companies shows that Dept equity ratio is positively and strongly associated to all profitability ratios (Gross Profit, Operating Profit & Net Profit Ratios).

5.3 Conclusions

From the results of this study, it has been observed that there is a significant positive relationship between corporate governance, capital structure and financial performance. Corporate governance has been as an essential tool for maintaining integrity of commercial banks and hence strengthening their financial performance. Good corporate governance practices contribute to healthy business climate that encourages domestic and foreign investment which in turn improves the capital structure base and increases financial performance in the long run.

5.4 Recommendations

The study recommends that banks should continuously develop and maintain corporate governance principles and mechanisms in place.

The study recommends that banks to widen their capital structure bases by investing more in free-risk investments.

The study recommends that all stakeholders should be enlightened about corporate governance principles so that they know their rights.
In bid to financial performance, banks should fully operationalize the Basle regulatory frame work and also create operational corporate governance committee in place to continuously review and addresses the weakness.

There is need to find out other factors affecting the financial performance of commercial banks given that corporate governance and capital structure explain on average 49.3% of the variations in financial performance.

5.5 Areas for Further Research

The future research should follow the longitudinal approach since the model of this study is cross-sectional, which measures the intention only at a single point in time.

Future research should look into other factors that will increase financial performance since the regression model accounted only for 49.3%.

Future research should also focus on microfinance institutions using similar study variables.
REFERENCES


Denizer, C (1997), The effects of financial liberalization and new bank entry on market structure and competition in Turkey, viewed on 29 April 2008,


APPENDIX: QUESTIONNAIRE

MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL
STUDY ON CORPORATE GOVERNANCE, CAPITAL STRUCTURE AND 
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA

Dear Respondent, you are kindly requested to participate in this post graduate study by providing answers to the following questions. The findings are purely for academic purposes and your responses will be treated with utmost confidentiality. Thank you for your positive response.

Section A: Background Information

1. Gender of the respondent

<table>
<thead>
<tr>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

2. Ownership of the bank

<table>
<thead>
<tr>
<th>Local</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

3. Age bracket of the respondent

<table>
<thead>
<tr>
<th>Below 25 years</th>
<th>25-35 years</th>
<th>35-45 years</th>
<th>45-55 years</th>
<th>Above 55 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

4. Length of service in the Bank

<table>
<thead>
<tr>
<th>Less than 1 year</th>
<th>1-5 years</th>
<th>6-10 years</th>
<th>Above 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

5. Highest level of Education attained

<table>
<thead>
<tr>
<th>Certificate/Diploma</th>
<th>Bachelor’s Degree</th>
<th>Professional</th>
<th>Masters</th>
<th>PhD</th>
<th>Others</th>
</tr>
</thead>
</table>
6. Number of employees per bank

<table>
<thead>
<tr>
<th>Less than 200 employees</th>
<th>200-500 employees</th>
<th>501-700 employees</th>
<th>701 employees and above</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

7. Tenure in operations

<table>
<thead>
<tr>
<th>1-5 years</th>
<th>6-10 years</th>
<th>11-16 years</th>
<th>Above 16 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

SECTION B: Study Variables: Please respond to the following statements by indicating the extent to which you agree or disagree on the provided scale

<table>
<thead>
<tr>
<th>SNO.</th>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not Sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The board assists in reviewing and guiding corporate strategy</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>The board reviews key executive and board compensation</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>The board ensures the integrity of the corporation’s financial reporting system</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------------------------------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>The board monitors the effectiveness of the</td>
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<td>5</td>
<td>The minority shareholders’ rights are protected</td>
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<td>6</td>
<td>All shareholders have the same rights to</td>
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<td>elect/remove members of the board</td>
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<td>7</td>
<td>The minority shareholders have the same rights to</td>
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<td>vote in general meetings</td>
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<td>8</td>
<td>Aggrieved shareholders have recourse</td>
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<td>9</td>
<td>The bank has different compositions of</td>
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<td>10</td>
<td>Minority shareholders are allowed to express</td>
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<td>their views at general meetings</td>
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<td>11</td>
<td>Preferential treatment is often given to large shareholders</td>
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<td>12</td>
<td>Chairpersons sometimes ignore minority shareholders at general meetings</td>
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<td>13</td>
<td>The bank uses Independent auditors</td>
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<td>14</td>
<td>Insider trading in the bank is effectively</td>
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<td>15</td>
<td>There is equal access to information for all shareholders</td>
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<td>16</td>
<td>Disclosure of managerial ownership and</td>
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<td>compensation is open to the public and</td>
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shareholders.
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<tr>
<th></th>
<th><strong>B: Capital structure</strong></th>
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<tbody>
<tr>
<td>1</td>
<td>The bank has clear equity owners.</td>
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<tr>
<td>2</td>
<td>The equity owners always have the capacity to provide more finance.</td>
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<td>3</td>
<td>There are clear specifications of the rights of equity holders.</td>
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<td>4</td>
<td>The firm always has ready access to commercial debt.</td>
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<td>5</td>
<td>The bank finds it cheaper using more of commercial debt.</td>
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<tr>
<td>6</td>
<td>The bank finds it cheaper using more of equity financing.</td>
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<tr>
<td>7</td>
<td>We can easily access funds from each of our sources</td>
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<td>8</td>
<td>We have always had the prerequisite for loans</td>
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<td>9</td>
<td>We always raise funds from bank loans easily</td>
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<td>10</td>
<td>We always raise funds from owners personal savings</td>
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<td>11</td>
<td>It is easy raising funds from friends and relatives</td>
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<td>It was easy raising funds from external parties</td>
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<td>C: Financial Performance</td>
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<td>1</td>
<td>Capital adequacy reduces the borrowing rate by the bank</td>
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<td>2</td>
<td>A sound capital base strengthen confidence of depositors</td>
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<td>3</td>
<td>Capital adequacy determines how well our bank is operating</td>
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<td>4</td>
<td>Capital adequacy takes into account the most important financial risks</td>
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<td>5</td>
<td>Capital is always maintained at levels above regulatory levels in my bank.</td>
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<td>6</td>
<td>The ratio of non-performing assets is high in my bank</td>
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<td>7</td>
<td>Higher gross non-performing assets are an indicator of poor credit decision making</td>
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<td>8</td>
<td>The solvency of my bank is at risk when the assets become impaired</td>
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<td>9</td>
<td>We monitor indicators of the quality of assets in terms of exposure to specific risk</td>
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<td>10</td>
<td>We monitor trends of non-performing loans in</td>
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<td>my bank</td>
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<td>11</td>
<td>The asset turnover ratio is high in my bank</td>
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<td>12</td>
<td>Operational cost are high in our bank</td>
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<td>13</td>
<td>Our bank has a high return on investment</td>
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<tr>
<td>14</td>
<td>The trend of earnings is properly monitored by the bank</td>
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<td>15</td>
<td>Our bank is highly profitable</td>
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Thanks once again for your time