

An Investigation on Corporate Governance in Selected Commercial Banks in Uganda: A Comparative Study

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Received: 7 December 2013 Accepted: 31 December 2013 Published: 15 January 2014

Abstract

The study was conducted in three selected commercial banks in Uganda that is Centenary Rural Development Bank (CERUDEB), Orient Bank and Standard Chartered Bank (Stanchart) and was based on information relating to the banks' performance for the years 2007-2011. The objective of the study was to establish the corporate governance employed by the selected commercial banks. The total population of the study was 267 respondents comprising of employees of the three selected banks, who work at the headquarters. The sample size for the study was 159 respondents. This was based on Krejcie and Morgan's (1970) table for determining sample size. The study used a self administered questionnaire, structured to have both open-ended and closed questions. It was concluded that corporate governance in the selected commercial banks was moderately employed with means of 3.00 for Centenary bank, 2.82 for Orient bank and 2.71 for Standard Chartered bank.

Index terms— corporate governance, commercial banks, uganda, employees.

1 Introduction

With the dawn of the twenty first century, corporate governance has attained heightened importance and attention in government policy circles, academia, and popular press throughout much of the world. Global events concerning high-profile corporate failures have put back on the policy agenda and intensified debate on the efficiency of corporate governance mechanisms as a means of increasing firm financial performance. The new century's financial scandals affecting major American firms, such as Enron (2001) and WorldCom (2002) and the resulting loss of confidence of the investing public in the stock market led to dramatic declines in share prices and substantial losses, all these attributed to failed corporate governance as a principal cause of the scandals (Holmstrom and Kaplan 2003).

In Africa, comprehensive studies done with regards to corporate governance by Ayogu (2001), found that corporate governance had a problem with its design in institutions that is, the management and their actions in taking account of the welfare of the stakeholders. Akinboade and Okeahalam (2003) followed up the study by doing a cross-country study on selected African countries which was essentially a review of corporate governance in Africa and highlighted issues and challenges in corporate governance. Kyereboah-Coleman and Biekpe (2006) did a comparative study by looking at corporate governance and performance of listed and non-listed banks in Ghana, and found out that supervision and enforcement of laws and processes remains a major issue hindering effective corporate governance.

It is for this reason, International standards and guidelines on corporate governance have been established by multilateral organizations including the Organization for Economic Co-operation and Development (OECD, 2004) and the Basle Committee in the effort to ensure improved legal, institutional and regulatory framework for enhancing corporate governance in institutions such as banks and financial markets.

In Uganda, following the enactment of the Financial Institutions Act 2004 (FIA 2004), a new set of implementing regulations had to be instituted. Consequently, nine new regulations to implement the Financial

Institutions Act (FIA) 2004 were developed and then gazetted during 2005. To further enhance implementation of FIA 2004, a one day sensitization seminar was conducted for all members of the board of directors of banks to highlight their duties and responsibilities in fostering prudent corporate governance practices in commercial banks. Commercial Banking Department has continued to vet all directors and senior managers of banks under the "fit and proper" test. To enhance disclosure and transparency, banks have been compelled to display bank charges at their banking halls. Furthermore, Bank of Uganda commenced the practice of displaying in the print media the various charges levied by banks on a quarterly basis.

A study by Matama (2008), states that commercial banks failures in Uganda have been linked to self-inflicted causes resulting from bank owners; International Credit Bank (ICB), Greenland Bank (GLB), and Coop Bank were afflicted with the one-man management syndrome of corporate governance exemplified by Thomas Kato (ICB), Sulaiman Kiggundu (GBL) and Usaid (Coop Bank). There was no separation between senior management and the board of directors in ICB or GBL and that management took little account of depositor's interests. The board of ICB consisted of 4 members of the Kato family including a six -year-old child. GLB had two boards of directors but neither had a say in the running of the bank for instance ICB's audit report cited connected or insider lending to a tune of US\$4 billion. The BOU closure of the above mentioned banks was intended to awaken the owners, directors and managers of the other commercial banks to institute sound corporate governance principles and foster better financial performance.

Good governance is a requisite and a gauge of how predictable the system for doing business in any country is (Kibirango 2002). Despite the fact that most banking institutions in Uganda adhere to good corporate governance practices, a number of banks have failed to perform as expected. (Japheth Katto, Capital Markets Authority chief executive officer; February 10, 2012). This is evidenced by Centenary Banks' financial results (2010), where the managing director, revealed that the bank experienced a slowdown in its financial growth in 2010 by -0.7% (Centenary Bank Annual reports, 2010). Further, in Orient bank, it has been evidenced that the profitability ratio has been on a decline 32 % (2007), 31% (2008) and 29% (2009), (Orient Bank Annual report, 2009). Finally in Standard Chartered Bank, the bank failed to pursue maximization of profits as per the bank's business goal for 2011 of despite having good corporate governance practices in place (Jeff Mbanga, New Vision; 1 May 2012). The researcher attempts to investigate why the selected commercial banks in Uganda (orient bank, centenary bank and Standard Chartered Bank) are not performing well despite having corporate governance in place.

2 II.

3 Theoretical Framework

This study was based on the agency theory, which focuses more on the relationship between the management and shareholders in ensuring that the managers work to the best interests of the shareholders. Separation of control from ownership implies that professional managers manage a firm on behalf of the firms' owners. Conflicts arise when a firm's owners perceive the professional managers not to be managing the firm in the best interest of the owners (Kiel and Nicholson 2003). The theory is also concerned with analyzing and resolving problems that occur in the relationship between principles and their agents and the literature emanating from such efforts has grown, and much of the econometric evidence has been built on the theoretical works of Ross (1973), Jensen and Meckling (1976), and Fama (1980).

However, superior information available to professional managers allows them to gain advantage over owners of firms. The reasoning is that firms' top managers may be more interested in their personal welfare than in the welfare of the firms' shareholders (Berle and means 1967). Further Donaldson and Davis (1991) argue that managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented to safeguard the interest of shareholders. Therefore the theory advocates that the purpose of corporate governance is to minimize the potential for managers to act in a manner contrary to the interest of shareholders and so relevant for this study.

4 III.

5 Methodology

The study used descriptive survey design employing both qualitative and quantitative approaches. It used the descriptive design because it is concerned with describing the characteristics of the study. Some data to be obtained was ordinarily be expressed in nonnumerical forms (opinion questions). It was quantitative in the fact that some questions were expressed in numerical form in accordance to the likert scale. It was aimed at providing a systematic description that is as factual and as accurate as possible and a self administered questionnaire was used as the research instrument for data collection. The research also used a cross-sectional design because it is intended to investigate the information on the existing conditions at a given period of time and as well looked at each variable at a particular point in time. The study also took a comparative design because it looked at the corporate governance practices in each of the selected banks and compared them with each other for similarities and differences as well as their effect on the banks' financial performance.

The total population of the study was 267 respondents comprising of employees of the three selected banks, who work at the headquarters. Standard Chartered Bank had 109 employees in their head offices, Centenary

Bank 85 employees and Orient bank 73 employees. The researcher selected these because they are more informed of the banks' governance mechanisms and performance than employees working in other branches of these banking institutions. The sample size for the study was 159 respondents. This is based on Krejcie and Morgan's (1970) After a successful data collection exercise, the researcher analyzed, edited, coded, and tabulated the findings. For quantitative data, the computer program, SPSS was used to analyze the data, this is because this program is simple and easy to analyze and interpret the findings. Descriptive statistics was used making use of frequencies and percentage tables and mean.

IV.

6 Results and Discussions

The study was to examine the corporate governance practices employed by the selected commercial banks in relation to financial performance. The specific variables investigated under study were, board of directors operations, organizational policies and procedures, statutory compliance and financial management and reporting. This was analyzed using the mean which portrays the occurrence of the response in the selected commercial banks and enabled the researcher to make a comparison of the corporate governance practices between the selected commercial banks.

Descriptive statistics showing mean on the corporate governance practices employed by the selected commercial banks Table 1 shows the board of directors operations, the results indicated that board of directors operations is moderate, Centenary bank having a mean of 3.00, followed by Standard Chartered bank 2.95 and Orient bank having a mean of 2.78. This means that the board operations are not fully exercised in the selected commercial banks, which is contrary to Hopt (2022) who states that the board is chiefly responsible for maintain managerial performance in achieving an adequate return for shareholders and other stakeholders, while preventing conflicts of interest. Taylor (2002) also argues that success of any business ultimately depends on the full capacity of its board of directors to provide a direction needed not only to survive but to develop and prosper. This may be the reason for the moderate financial performance.

7 Item

With regard to statutory compliance, the results also indicated that there is moderate statutory compliance in the selected commercial banks with Orient bank having a mean of 2.82, followed by Centenary bank 2.77 and finally Standard chartered bank with a mean of 2.66. This means that the selected commercial banks have are not fully compliant with the set laws. This to some extent contradicts with Vallabhaneni (2008) who states that for efficient performance, any business needs to be aligned with its ethical and professional standards so that adherence to these values is rewarded.

Further, the findings indicated that there was a low mean of 2.33 for standard Chartered bank when it came to organizational policies and procedures. Orient bank had the highest mean of 3.07 while centenary bank had a mean of 2.93. This means that there are weak policies and procedures in Standard Chartered bank as compared to Centenary Bank as well as Orient bank, which have moderate means. This implies that all the three commercial banks have a lack in their policies and procedures.

Lastly, the findings indicated that there was a moderate mean for all the banks when it came to financial management and reporting. Centenary bank had mean of 2.99, followed by Orient bank 2.85 and Standard Chartered at 2.54. This means that there is moderate financial management and reporting in the selected commercial banks.

In General, there moderate corporate governance practiced by the selected commercial banks by the grand mean of 2.95 for Centenary bank, 2.85 for Orient bank and 2.68 for Standard Chartered Bank. This means that the respondents' opinions about corporate governance employed by the selected commercial banks were almost similar, suggesting that that the respondents agree that corporate governance is moderately employed by the selected commercial banks.

In summary the corporate governance practices by the selected banks is moderately employed at a grand mean of 2.95 for Centenary bank, 2.85 for Orient bank and 2.68 for Standard Chartered Bank which are all moderate. This implies that even the contribution of this on financial performance of these banks is significantly moderate. This is contrary Bocean and Barbu (2005) who state that efficient corporate governance matters for financial performance. Matama (2008) also recommended that banks, both local and international should enforce full corporate governance practices for them to survive in the competitive financial landscape and finally Shleifer and Vishny (2007) state that if corporate governance mechanisms did not function properly, outside investors would not lend to the banks or buy the banks' securities and as a result of this, the overall financial performance is likely to suffer. The moderate corporate governance in the selected commercial banks may be the reason for the failure of the selected commercial banks to achieve the expected financial performance.

V.

8 Conclusion

In regard to the findings, it was concluded that, corporate governance in the selected commercial banks was moderately employed, meaning that the corporate governance practices exist but they are not fully exercised.

This may be due to lack skills and knowledge by the board members poor composition of the board or lack of commitment by board members and reluctant monitoring of the management and poor implementation of the set policies and procedures by management and other employees of the selected banks.

9 VI.

10 Recommendations

The researcher based his findings and views from the respondents that participated in the study that the board of directors in the three selected commercial banks should make efforts in ensuring that the policies set both by law and the board of directors are revised and fully employed. The boards should improve on their monitoring and review the tragic ad annual plans regularly. The banks' management should come up with the measurement for the policies and procedures implemented to ensure that they have been followed and applied efficiently to ensure that they remain optimistic in the competitive financial landscape. The bank management should also utilize the banks' assets in generating more profits.

For Orient bank, the bank management should revisit and redesign their training and development module for their employees which will be applied regularly in the company to improve the contribution of the workforce in Orient bank. The bank management should improve the remuneration package that will motivate the employees in the bank and retain the available workforce as they gain experience in the banking industry, which will eventually improve financial performance of this bank.

For the case of Centenary bank, the management needs to be more strict on bank's lending policies which have led to high loan default rates. This may be done through assessing individual and corporate credit worthiness and verifying the worth of the assets attached as securities when requesting for loans.

For Standard Chartered bank, the bank should put measures and work with the central bank to ensure that the foreign exchange rates are stabilized to ensure favorable exchange and interest rates for the customers. Finally, competition was seen to cut across all the three selected commercial banks that requires innovation, delivery of quality products and services and delivering good customer care to the clients and customers. ¹

Figure 1:

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