



CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN UGANDA

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Abstract

Persistent poor financial performance in commercial banks in Uganda yet stakeholders continuously alleged that corporate governance of these banks was doubtful, provoked the writing of this paper. Disclosure and trust, which constitute the integral parts of corporate governance, provide pressure for improved financial performance (Mark, 2000).

This paper aims at establishing the relationship between the core principles of corporate governance and financial performance in commercial banks of Uganda. Findings indicate that Corporate Governance predicts 34.5 % of the variance in the general financial performance of Commercial banks in Uganda. However the significant contributors to financial performance include openness and reliability. Openness and Reliability are measures of trust. On the other hand credit risk as a measure of disclosure has a negative relationship with financial performance.

It is obvious that trust has a significant impact on financial performance; given that transparency and disclosure boosts the trustworthiness of commercial banks. Banks both local and international should enforce full disclosure practices and transparency practices thereby enhancing trust in order to survive in the competitive financial landscape.

Keywords

Corporate governance, financial transparency, disclosure, trust & financial performance.

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Introduction

The International financial landscape is changing rapidly; economies and financial systems are undergoing traumatic years. Globalization and technology have continuing speed, financial arenas are becoming more open, new products and services are being invented and marketed and regulators everywhere are scrambling to assess the changes and master the turbulence. An international wave of mergers and acquisitions has swept the banking industry as boundaries between financial sectors and products have blurred dramatically. In this brave new world, one fact remains unchanged. The need for countries to have sound resilient banking systems and strong banks with good Corporate Governance then will use competition to strengthen and upgrade their institutions that will survive in an increasingly open environment (Kaheeru, 2001). According to James Wolfensohn former World Bank Group President, Corporate governance is about promoting corporate fairness, transparency and accountability (Financial Times, 1999). Governance is a requisite for survival and a gauge of how predictable the system for doing business in any country is. In developing countries, the importance of governance is to strengthen the foundation of society and chip into the global economy.

International standards and guidelines on corporate governance have been established by many multilateral organizations including the OECD 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 (Kibirango, 2002). Specifically, the World Bank has proposed guidelines for good corporate governance in the financial sector, because of the critical role of the sector as the main vehicle for robust economic growth and effective transmission of monetary policy.

In Uganda, the factors responsible for poor corporate performance especially in banks emanate from lack of transparency, accountability and poor ethical conduct (Kibirango, 1999). Commercial banks failures have been linked to self-inflicted causes resulting from bank owners; ICB(International Credit Bank), GBL(Greenland Bank), and Coop Bank were afflicted with the one-man management syndrome of corporate governance exemplified by Thomas Kato (ICB), Sulaiman Kiggundu (GBL) and USAID (Co-op 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. GBL had two boards of directors but neither had a say in the running of the bank for instance ICBs audit report cited connected or insider lending to a tune of UShs. 4 billion. In the case of GBL the July 1998 Bank of Uganda (BOU) Audit Report stated that as per 30th June 1998, Insider lending stood at Ushs.22, 722 million representing 47 percent of customer deposits and accounting for 55 percent of the total loan portfolio yet the maximum amount the bank could lend according to FIS 1993 was Ushs.975 million only. The report also cited that in most cases credit was extended on sole instructions of then Managing Director without any or minimal documentation (BOU, 1999).

At the time of removing the Managing director in December 1998, the bank was more illiquid than what the financial statements were showing. Greenland Bank had tried to cover up the shortfall through kiting cheques between them selves and Uganda Commercial Bank and this involved instruments worth about Ushs. 4 billion. At the time of handing over, Kigundu admitted having made huge investments (UShs. 37bn. off-Balance Sheet) mostly in related companies without disclosing these in books of the bank. In addition, he had secretly solicited for substantial deposits UShs. 20 billion,



which were kept off the financial Statements of the bank (BOU, 19, 1999). The B.O.U. 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.

It is worth highlighting that, insufficient financial disclosure evidenced by high level of off-balance sheet items, lack of transparency resulting from gross mismanagement and dubious accounting actions as observed in cases of ICB, GBL (Yunusu, 2001) and TransAfrica Bank Ltd (B.O.U., 2002) are detrimental to interests of banks stakeholders especially the depositors. The bank's capital, asset and earnings values are affected and as a result the financial performance is questionable. This may be due to poor corporate governance.

Amazingly, even after the intervention by Bank of Uganda through the closure of at least three commercial Banks in 1999, a number of Commercial Banks in Uganda have continued to register poor financial Performance, for instance, National Bank of Commerce in 2001/2002 reported a loss of 729,000,000/= and the banks liabilities swelled to 5bn/= in year 2002 from Ug. Shs 2.3bn in 2001. Citibanks profits fell from Ug. Shs. 4.1bn. in year 2001 to 2.3bn/= in year 2002 (Aggrey, 2003), Similarly, the Balance sheet position of Stanbic Bank (U) ltd. for year 2001 declined by 14.24 per cent compared with a growth of 19.19 per cent in 2000. Loans and advances, which comprised 32.95 percent of total assets declined by 24.42 percent, and the efficiency ratio deteriorated from 31.65 percent to 35.07 percent (Stanbic Bank Uganda, 2001).

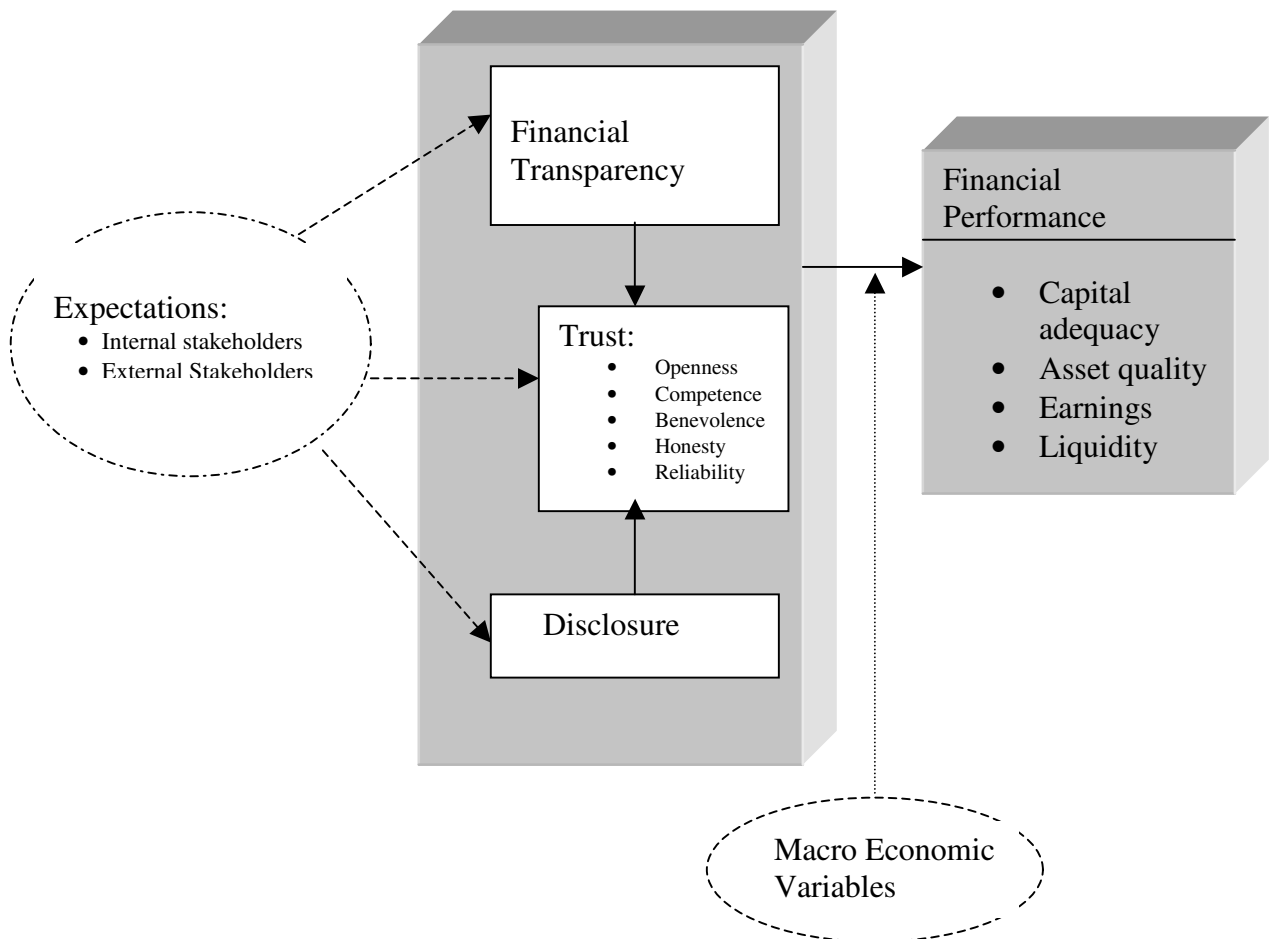
The overall aim of this paper is to investigate the link between, financial performance and the Core pillars of corporate governance; transparency, disclosure and trust in commercial banks in Uganda, within International and local Commercial Banks with headquarters in Kampala District, Stanbic Bank, Cairo Bank, Orient Bank and CERUDE Bank were the key focus in this paper. In order to achieve this aim bank annual reports formed a major source of financial data used to gauge financial performance. Financial performance was measured using CAEL Model which was later correlated with corporate governance variable.



An Overview of the Key Variables

To understand corporate governance and financial performance variables in relation to commercial banks, the major corporate governance pillars i.e. financial transparency, disclosure and trust are dissected. Financial performance especially relating to commercial banks is also reviewed based on the performance dimensions comprising: capital adequacy, asset quality, earnings and liquidity. The significance of stakeholders in commercial banks is also highlighted. These are compressed in a conceptual framework as shown in Fig.1 below.

Fig 1: Corporate Governance & Financial Performance Conceptual Framework



Source: Constructed after reviewing existing literature on the variables

Expectations, Rights, and duties of stakeholders

Numerous stakeholders (internal and external) exist in any business enterprise. Some of these include; customers, shareholders, financiers, government among others. Internal stakeholders such as the employees and external stakeholders like Shareholders, Customers, Tax Authorities, and Bank Supervisors. These expect commercial banks to be financially transparent and disclose adequate financial information voluntarily. Shareholders, particularly have a variety of rights in terms of receiving a dividend and appointing managing director. It is not clear whether their duties might lie. Since it is understood that buying shares is an investment there is no reason why a shareholder



remains loyal to a company, or a management team in any circumstances. It is thus entirely unreasonable for industrialists to accuse shareholders of short termism when selling shares that have not performed to expectations James & Arthur (2003). One of the key stakeholders includes the government. Government formulates rules and regulations that enterprises should follow as they transact their business, organisations are also expected to file returns to the tax authorities for instance Uganda Revenue Authority and Bank of Uganda, the expectation of government is that, information from these enterprises should not be biased and misleading. Management has to take into account the stakeholders expectations when they set a strategic direction but this can only be attained through sound corporate governance.

Corporate Governance

Corporate governance is 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. Indeed the outcome of a survey by Mckinsey in collaboration with the World Bank in June 2000 attested to the strong link between corporate governance and stakeholder confidence (Mark, 2000)

Given that a study has already been carried out on the extent to which board composition affects team processes (orientation communication feedbacks, coordination, leadership and monitoring), board effectiveness and performance of the selected financial institutions in Uganda (Rosette, 2002), the researcher picked three basic tenets of Corporate Governance; Transparency, Disclosure and Trust in relation to commercial bank financial performance in Uganda, these tenets fall under the accounting field. The constructs/tenets are reviewed in the following sections.

Transparency

Transparency is integral to corporate governance, higher transparency reduces the information asymmetry between a firm's management and financial stakeholder's (equity and bondholders), mitigating the agency problem in corporate governance (Sandeep et al, 2002). In Uganda lack of transparency is attributed to the closures of commercial banks (Yunusu, 2001).

Bank Transparency

The concept of Bank transparency is broad in scope it refers to the quality and quantity of public information on a bank's risk profile and to the timing of its disclosure, including the banks past and current decisions and actions as well as its plans for the future. The transparency of the banking sector as a whole also includes public information on bank regulations and on safety net operations of the central bank (Enoch et al, 1997 and Rosengren, 1998).

Weak transparency makes banks' asset risks opaque. Stock market participants including professional analysts such as Moody's encounter difficulties in measuring banks credit worthiness and risk exposures (Poon, Firth, and Fung, 1999, Morgan 1999, and Jordan, Peek, Rosengren, (2000)). Ball (2001) argues that timely incorporation of economic losses in the published financial statements (that is, conservatism) increases the effectiveness of corporate governance, compensation systems, and debt agreements in motivating and monitoring managers. For instance, improved governance can manifest in a reduction of



the private benefits that managers can extract from the company or in a reduction of the legal and auditing costs that shareholders must bear to prevent managerial opportunism.

Governance research in accounting exploits the role of accounting information as a source of credible information variables that support the existence of enforceable contracts, such as compensation contracts with payoffs to managers contingent on realized measures of performance, the monitoring of managers by boards of directors and outside investors and regulators, and the exercise of investor rights granted by existing securities laws. There are a number of issues to consider in this regard. First, the existence of a strong financial accounting regime is likely a precondition for the existence of a vibrant stock market and in its absence the notions of equity-based pay and diffuse ownership of firms become moot (Ball (2001) and Black (2000))

Institutional Variables Used to Measure Corporate transparency comprises Financial accounting disclosures of major stakeholders, Timeliness of disclosures, Information dissemination and completeness of information. Robert & Abbie (2001) concur with BPS especially on institutional transparency, they outline the transparency dimensions as; Completeness of financial information, Release of information, Timeliness, and Means of dissemination.

Disclosure

Given the recent corporate scandals (US Based; Enron, WorldCom... (Heidi and Marleen (2003) and Uganda Based; Greenland Bank Ltd, ICB...(Japheth (2001)) restoring public trust is at the top of the agenda of today's business leaders. Greater information provision (disclosure) on the company's capital and control structures – can be an important means to achieve this goal. High quality and relevant information is crucial for exercise of governance powers. Full Disclosure seeks to avoid financial statements fraud (Beasley, 1996; Beasley et al, 2000). Prior studies have concentrated on disclosure of items such as management earnings forecasts (Johnson et al, 2001; Lev and Penman 1990) or interim earnings (Leftwich and Zimmerman 1981), or have examined a very general disclosure index of financial and/or non - financial items (Chow and Wong – Borren, 1987). The CIFAR Index (i.e. a disclosure index created by the Center for Intentional Financial Analysis and Research (CIFAR) rates annual reports on the inclusion or omission of about 90 (rather traditional and mandatory financial) items from the following categories; general information, income statements, balance sheet, funds flow statement, accounting standards, stock data and special items (Laporta et al, 1998).

Dangers of Voluntary Disclosure

The most common arguments against voluntary disclosure from a managerial perspective are fear of giving away sensitive information to competitors and procurement of extra costs for collecting and disclosing the information (Eccles and Mavrinac (1995), Healy and Palepu (1993), Reich and Cylinder (1997). However, it is worth noting that as competition continues to bite, the “basket of secret” information tends to reduce.

Financial Disclosure

Financial disclosure, which is a key component of the newly proposed Basel Capital Accord, is reviewed in the following paragraphs. In April 2003, the Basel Committee on Banking Supervision (BCBS, 2003a), headquartered at the Bank for International Settlements in Switzerland, released the new Basel Capital Accord, which replaced the



1988 Capital Accord with an attempt to set regulatory capital requirements that are comparable across countries. The purpose of pillar three is to complement the other pillars by presenting an enhanced set of public disclosure requirements focusing on capital adequacy. This pillar is examined in more detail than the first 2 pillars given that disclosure represents one of the key variables in the scope of this study.

Details of Pillar Three

Pillar Three addresses the issue of improving market discipline through effective public disclosure. Specifically, it presents a set of disclosure requirements that should improve market participants' ability to assess banks' capital structures, exposures, management processes, and, hence, their overall capital adequacy. The proposed disclosure requirements consist of qualitative and quantitative information in three general areas: corporate structure, capital structure and adequacy, and management. Corporate structure refers to how a banking group is organized; for example, what is the top corporate entity of the group and how are its subsidiaries consolidated for accounting and regulatory purposes. Capital structure corresponds to how much capital is held and in what forms, such as common stock. The disclosure requirements for capital adequacy focus on a summary discussion of the bank's approach to assessing its current and future capital adequacy.

The Concept of Trust

Trust means many things. Everyone knows intuitively what it is to trust; yet articulating a precise definition is not a simple matter (Wayne & Megan 2002). Trust is difficult to define because it is so complex, in fact, Hosmer (1995) has observed.

"There appears to be widespread agreement on the importance of trust in human conduct, but unfortunately there also appears to be an equally widespread lack of agreement on a suitable definition of the construct".

Trust is a multifaceted construct, which may have different bases and phases depending on the context; it is also a dynamic construct that can change over the course of a relationship (Wayne and Megan, 2002).

Facets of trust

There are at least five facets of trust that can be gleaned from the literature on trust (Hoy & Tschannen-Moran, 1998; Tschannen-Moran & Hoy 2001). Benevolence, reliability competence, honesty and openness are all elements of trust (Wayne & Megan 2002).

Benevolence perhaps the most common facet of trust is a sense of benevolence - confidence that one's well being or something one cares about will be protected and not harmed by the trusted party (Baier, 1986; Butter & Cantecell, 1984; Cummings & Bramily, 1996; Deutch, 1958 Frost, Stimpson & Maughan, 1978; Ganbetta, 1988; Hosner, 1995; Hoy & Kupersmith 1985; Mishra 1996).

Reliability at its most basic level trust has to do with predictability that is, consistency of behaviour and knowing what to expect from others (Butter & Cantrell, 1984; Hosmer 1995). In and of itself, however, predictability is insufficient for trust. We can expect a person to be invariably late, consistently malicious, inauthentic, or dishonest when our well-being is diminished or damaged in a predictable way, expectations may be met, but the sense in which we trust the other person or group is weak.



Competence: Good intentions are not always enough when a person is dependent on another but some level of skill is involved in fulfilling an expectation an individual who means well may nonetheless not be trusted (Baier 1986; Butter & Cantrell, 1984; Mishra, 1996). Competence is the ability to perform as expected and according to standards appropriate to task at hand, many organisational tasks rely on competence.

Honesty: Honesty is the person's character, integrity and authenticity Rotter (1967) defined trust as "the expectancy that the word, promise, verbal or written statement of another individual or group can be relied upon". Statements are truthful when they confirm to "what really happened " from that perspective and when commitments made about future actions are kept. A correspondence between a person's statements and deeds demonstrates integrity.

Openness: Openness is the extent to which relevant information is shared; it is process by which individuals make themselves vulnerable to others. The information shared may be strictly about organisational matters or it may be personal information, but it is a giving of oneself (Butter & Cantrell, 1984, Mishra, 1996) such openness signals reciprocal trust a confidence that neither the information nor the individual will be exploited and recipients can feel the same confidence in return. Individuals who are unwilling to extend trust through openness end up isolated (Kramer, Brewer & Hanna, 1996). In Uganda, as in many other countries, there is a rooted distrust in most of the public sector Shleifer, and Vishny, (1993) this may also be the case for the private sector in which the commercial banks fall.

Macro-Economic Variable

Macro-economic variables through factors such as inflation and changes in interest rates may either enhance or distress commercial bank's financial performance. Cordella & levy Yeyati (1998a) point out that if the shocks of the economy are wide and banks cannot control their asset portfolio risks, then full transparency of banks risk positions may destabilize the banking system. A country's macro economic environment may also affect transparency levels therefore it becomes difficult to relate to financial performance of commercial Banks. Consider Uganda where the economy is shaped by a number of straining factors like unemployment, 38% of entire population under the poverty line. Such factors have a serious impact on the behaviour of potential account holders or even those who operate accounts. This means that even if there is proper transparency, full disclosure and trust in the banking industry, the above challenges may negatively affect financial performance in Uganda. In this paper, these together with other social, political and technological factors are assumed invariable.

Relationship of Transparency, Disclosure, Trust and Financial Performance

Transparency, disclosure and trust, which constitute the integral part of corporate governance, can provide pressure for improved financial performance. Financial performance, present and prospective is a benchmark for investment. The Mckinsey Quarterly surveys suggest that institutional investors will pay as much as 28% more for the shares of well governed companies in emerging markets (Mark, 2000). According to the corporate governance survey 2002, carried out by the Kuala Lumpur stock exchange and accounting firm Price Water House Coopers (PWC), the majority of investors in Malaysia are prepared to pay 20% premium for companies with superior corporate governance practices.



Financial Performance and financial institutions

Financial soundness is a situation where depositor's funds are safe in a stable banking system. The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another (BOU, 2002). External factors such as deregulation; lack of information among bank customers; homogeneity of the bank business, connections among banks do cause bank failure. Some useful measures of financial performance which is the alternative term as financial soundness are coined into what is referred to as CAMEL. The acronym "CAMEL" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. A sixth component, a bank's Sensitivity to market risk, was added in 1997; hence the acronym was changed to CAMELS. (Note that the bulk of the academic literature is based on pre -1997 data and is thus based on CAMEL ratings.) Ratings are assigned for each component in addition to the overall rating of a bank's financial condition (Jose, 1999). The ratings are assigned on a scale from 1 to 5.

Capital Adequacy: This ultimately determines how well financial institutions can cope with shocks to their balance sheets. The bank monitors the adequacy of its capital using ratios established by The Bank for International Settlements. Capital adequacy in commercial banks is measured in relation to the relative risk weights assigned to the different category of assets held both on and off the balance sheet items (Bank of Uganda, 2002).

Asset Quality: The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks trends in non- performing loans, and the health and profitability of bank borrowers especially the corporate sector. Credit risk is inherent in lending, which is the major banking business. It arises when a borrower defaults on the loan repayment agreement. A financial institution whose borrowers default on their repayments may face cash flow problems, which eventually affect its liquidity position. Ultimately, this negatively impacts on the profitability and capital through extra specific provisions for bad debts (Bank of Uganda, 2002).

Earnings: The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. Good earnings performance enables a bank to fund its expansion, remain competitive in the market and replenish and /or increase its capital (Bank of Uganda, 2002). A number of authors have argued that, banks that must survive need: Higher Return on Assets (ROA), better return on net worth/Equity (ROE), sound capital base i.e. the Capital Adequacy Ratio (CAR), adoption of corporate governance ensuring transparency to stakeholders that is equity holders, regulators and the public.

Liquidity: Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches. An unmatched position potentially enhances profitability but also increases the risk of losses (The Ugandan Banker, June 2001). The "M" represents Management, given that this paper is hinged on financial performance, the management component in not considered in the measure.

Generally, literature on corporate governance comprises attributes such as financial transparency, disclosure and trust among others and it is revealed that financial



transparency and disclosure enhance trust between the stakeholders and organisations like commercial banks. Capital Adequacy, Earnings and Liquidity are the key dimensions of measuring financial performance in Commercial Banks. In summary, this literature forms an underpinning for the establishment of the association between corporate governance and financial performance.

Methodology

A range of data collection tools and data analysis techniques were used. This study was conducted as a cross sectional and correlational investigation. Given that the key focus was to investigate the relationship between Corporate governance and financial performance. The target population included depositors (account holders) in Bank R (6,228 Elements), Bank Y (527,681 Elements), Bank Z (14,357 Elements) and Bank M (344,005 Elements). Other stakeholders considered include 16 BOU officials in charge of financial Institutions, and 16 URA officials.

Sampling and Sample Size

Four commercial banks that deal with both retail and corporate customers were selected. Selection was based on number of account holders as provided by B.O.U. Two Commercial Banks with highest number of account holders - one international and one local and two commercial Banks with lowest number of account holders - one international and one local. These four banks represented a balanced position for the commercial Banks based in Uganda.

A sample size of 30–500 is appropriate for most studies according to Roscoe's (1975) rule of thumb. However, to be specific the researcher adopted Krejcie and Morgan (1970) simplified Table in Sekaran (2000) and a sample size of 388 was selected given at 95% level of certainty given that the total population of the 4 banks summed to 906,628 account holders. Table 1 shows how the Sample is broken down among the four banks using Proportionate Stratified Random Sampling. This was used because of the varying numbers of customers (account holders) in the four commercial banks. The names of respective commercial banks are not shown due to the sensitivity and confidentiality attributed to the information.

Table 1: Proportionate Stratified Random Sampling

Bank/ Stratum	No. of Accounts	Proportion (%)	Sample
Small/international(R)	6,228	0.68	3
Small/local (Z)	14,357	1.58	6
Large/ Local (M)	344,005	37.94	147
Large/international (Y)	527,681	58.21	226
TOTAL	906,628	100	388

Source: BOU



Using judgmental sampling, account holders that are literate, approachable and ready to provide data were selected. Respondents were screened to those who would have used bank services for at least one year to ensure thorough data collection. Data was collected from both corporate and retail customers of commercial banks. 16 Bank of Uganda officials in charge of DIF and 16 URA staff in charge of DDT (Bank Audit) were also considered to enhance the reliability of the responses.

Data Collection Instruments

Self-Administered questionnaires were used. Perceptions and Beliefs were sought to a five-point Likert Scale, five being the highest (Tull and Hawkins, 1993).

Primary and Secondary Data Collection

Primary and Secondary Data was collected, primary data was from respondents mentioned above, Secondary data especially Annual Reports were sourced from Bank of Uganda's Library. The Institute of Banker's Library, ICPAU- Library, MUBS Graduate Research Centre and Commercial Banks.

Data Analysis

The data was analyzed using descriptive analysis options of SPSS version 11.0. Thereafter, Pearson's correlation's statistical techniques were used to test and establish whether there exists a relationship between transparency, disclosure, trust and financial performance while multiple regression analysis was used to test the potential predictors of the dependent variable. Pearson correlation technique was adopted given that the dependent variable was converted to interval data in five scales in order to correlate it with the independent variables that were ranked on a five point likert scale. Likert scales were scored as though one were assuming a legitimate interval data this is in agreement with Abelson and Turkey (1970).

Measurement of Variables

Trust Scale

Using facets of trust: Benevolence, Competence, Openness, and Honesty (Hoy and Tschannen-Moran, 1999) Trust was measured using a 5-point likert scale, responses were set from Strongly Agree to Strongly Disagree. This was based on the Trust Scale (Wayne & Megan, 2002).

Disclosure Scale

Disclosure was measured using dimensions of Bank disclosure according to the Basel Capital Accord which included: Capital structure, capital adequacy, Credit risk, asset quality, geographic and business line diversification accounting and presentation policies (Basel Capital Accord, 2003). This was measured on a 5-point Likert Scale.

Financial Transparency Scale

The researcher used four dimensions of transparency that include, release of results, Completeness of results, timeliness of release of results and means of dissemination in measuring the Financial Transparency variable (Robert & Abbie, 2003). This was also measured on a 5-point Likert Scale.

Financial performance Scale

Financial performance of the Commercial Banks was measured based on the CAEL framework; Capital Adequacy, Asset Quality, Earnings, and Liquidity (Jose, 1999). Capital



Adequacy was measured using Core Capital divided by Risk Weighted Assets, Asset Quality by two ratios were used i.e. Non Performing Advances (NPA) divided by Total Advances and Specific Provisions divided by Non Performing Advances, Earnings was also measured using two ratios i.e. Return on Assets (ROA) & Return on Equity, and Finally Liquidity was measured using Liquidity Assets divided by Total Deposits & Total Advances divided by Total Deposits.

Analysis and Findings

A total of 388 questionnaires were sent to respondents in selected Commercial Banks, Bank of Uganda and Uganda Revenue Officials. A total of 291 questionnaires were filled and duly returned by the customers, representing a response rate of 75%. A total of 32 questionnaires were returned from URA respondents (16 Questionnaires) and BOU respondents (16 Questionnaires). The following indicate the intensity of the corporate governance and financial performance variables. Corporate governance in this paper was represented by the three major constructs financial transparency, disclosure and trust. The level of each construct is presented in the following sections.

Level of Financial Transparency in Commercial Banks

The Financial Transparency dimensions specified by Robert and Abbie (2003) were engaged in order to single out the opinions and responses from the stakeholders; Commercial bank customers, BOU officials and URA officials. The findings generally show that under financial transparency specifically in the release of financial periodic reports the majority of customers (54.5%) were not aware about the quarterly reports. This is not consistent with the research undertaken by Enoch et al (1987) & Rosen (1998) who noted that Bank transparency involves presenting public information.

Under completeness most of the customers indicated that they were not sure on the complete sets of financial results for instance 88% of all the respondents strongly disagreed on the completeness of banks balance sheets. On completeness in relation to B.O.U. most of the statements like the balance sheet and profit and loss A|C are presented complete to BOU. Still the issue of completeness may be explained by the work of Beatty et al (1995) and Genay (1998), which forms the basis of the researchers' inference that customers may not understand the statements and therefore conclude that they are not complete. However, the findings from 53.9% of bank of Uganda officials and Uganda Revenue Authority officials highlighted that the narrative commentary of result and details of borrowings were deficient, given that these key stakeholders have the same opinion over lack of completeness, then commercial banks do not present complete financial information which may lead to weak transparency as noted by Poon et al (1999), and Jordan et al (2000). This also makes the commercial banks assets risk opaque and measuring banks credit worthiness and risk exposures may be difficult as noted by the study undertaken by Morgan (1999).

Level of Disclosure in Commercial Banks

On the capital structure dimension it was established that banks on average do not provide information on the amount of shareholders equity (54.3%) and total capital base (41.3%), under this dimension of disclosure, the biggest percentage of customers

