

CORPORATE GOVERNANCE AND BUSINESS MANAGEMENT, A CASE STUDY OF EQUITY BANK-KAMPALA, UGANDA

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Abstract

The study examined the effect of corporate governance on business management in commercial banks in Uganda using Equity Bank as a case study. This was guided by the following objectives to establish the effect of transparency on business management, to examine the effect of accountability on business management, and to establish the effect of board composition on business management at Equity Bank. The study will be guided by both Principal Agency Theory and stakeholder theory. The study comprised 100 respondents sampled out of the total population of 134 employees being selected randomly from the Equity Bank. Pearson's Correlation Coefficient for transparency and business management was $r = 0.633$, which was positive with probability value ($p = 0.000$) that is less than $\alpha = 0.01$ level of significance, showing a positive relationship between transparency and organizational performance at the one per cent level of significance. The findings on the effect of transparency and business management revealed a significant relationship. The management of the bank should ensure that the generated financial reports are accurate, relevant and reliable so as to enhance decision making at the bank which would in turn have a positive effect on the performance of the bank.

Keywords: Corporate Governance on Business Management

1. Introduction

The subject of corporate governance world over has been top of the agenda for many years. Despite tight regulatory framework, corporate governance continues to weaken in developed and underdeveloped countries to some extent, affirms the World Bank report (2009). Issues of good governance in business have become matters of great public and academic debate during the past 15 years, prompted by major scandals such as the frauds at Enron and WorldCom in the US, and the collapse of Vivendi in France and Marconi and Equitable Life in the UK, to name a few.

Corporate governance is the international term associated with the trend towards greater corporate responsibility and the conduct of business within acceptable ethical standards as viewed by Brown and Caylor (2004). Brown and Caylor (200) assert that transparency, accountability and openness in reporting and disclosure of information, both operational and financial, are internationally accepted to be vital to the practice of good corporate governance. According to Bhagat (2004), the object of good corporate governance is attained when institutions

demonstrate their public accountability and conduct their business within acceptable ethical standards.

Commercial banks are distinguished from other financial institutions by their accepting deposits and provision of credit. Loans are the basic source of revenue and a major part of asset for banks.

Effect of Transparency on Business Management

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 (Barbu, 2005). In Uganda, lack of transparency is attributed to the closures of commercial banks. 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 bank's past and current decisions and actions as well as its plans for the future

Effect of Accountability on Business Management

Awio, Lawrence and Northcote (2007) posit that accountability is concerned with giving explanations through a credible story of what happened, and a calculation and balancing of competing obligations, including moral ones. Accountability ranges more freely over time and space, focusing as much on future potential as on past accomplishment, connecting and consolidating performance reports to plans and forecasts.

Effect of Board Composition on Business Management

According to the Gavin and Geoffrey (2004) the board composition allows for effective decision making and supervision of the management. Further to this, the board size should give room to fruitful discussions and appropriate, swift and prudent decisions. There is no perfect number of board members due to the different factors that may influence the board size, e.g. corporation's size, the business environment and special characteristics.

Findings

Effect of Transparency on Business management

The results on information access as a component of transparency in Table 4.6 showed that there was agreement that the bank published all public information (mean=3.95) whereas, the respondents disagreed that all relevant documents/reports/statements of the bank were available for access (mean=2.98), the information provided to the public was complete (mean=2.98) and dissemination of bank information was done in a timely manner (mean=2.54).

Effect of Accountability on Business management.

With regard to participation as a component of accountability, the majority of the respondents revealed that management was committed to the accountability process (mean=3.95), the degree of participation during the accountability process led to compliance (mean=3.90), there was stakeholder participation during accountability (mean=3.78), the accountability process was used as a means of assessing resource allocation (mean=3.71) and management adhered to accountability procedures set by law (mean=3.56) which was indication that the work processes were determined by their line managers or according to set guidelines and policies.

Participation	Mean	SD
Management provides adequate information when making		
Management adheres to accountability procedures set by law	3.56	.705
There is stakeholder participation during accountability	3.78	.729
The degree of participation during the accountability process leads to		
The accountability process is used as a means of assessing resource		
The management of the bank is committed to the accountability process	3.95	.671
Evaluation		
At the bank, there is resource monitoring	3.63	.719
Significant departures from accountability set targets are reported	3.46	.951
At the bank a lot of emphasis is put on timely provision of		
The availability of monitoring frameworks enhances accountability	3.78	.788
Management provides for tracking variances and backlash	3.06	.638
There is a clear methodology of tracking accountability	4.05	.817
There is identification of the risky areas likely to affect the		
There are well set internal controls to check the accountability process	3.59	.795
Independent financial reviews are carried out at the bank	3.09	.895
Fiscal compliance		
The bank adheres to set financial sector policies, rules and regulations	3.62	.932
The bank adheres to accountability procedures governing the banking		
The right priorities are usually set during the budgeting process at the		
There are effective internal controls used to monitor the operations of		
Staff are aware of the policies, laws and regulations	3.61	.881

Source: primary data, 2020

Effect of Board Composition on Business management.

From the results on competences as a component of board composition, the majority of the respondents were in agreement that board members demonstrated self-confidence by getting involved in decision making (mean=4.02), the management committee members were competent to handle the operations of the bank (mean=3.70), board members possessed the required knowledge and skills required to perform their roles (mean=3.67), board members had the capacity to develop policies and procedures (mean=3.65), board composition was diversified in regard to skills and competences (mean=3.59) and board members had the capability of assessing monetary and financial documents (mean=3.52).

Competencies	Mean	SD
I demonstrates self confidence by getting involved in decision making	4.02	.77
Board members possess the required knowledge and skills required to perform their roles	3.67	.81
Board members provides mutual support and monitor the operations of the Bank	3.48	.68
Board members have the capability of assessing monetary and financial Documents	3.52	.77
Board members have the capacity to develop policies and procedures	3.65	.81
The management committee of the bank is competent to handle the operations of the bank	3.70	.78
The management committee is independent during decision making	3.49	.89
Board composition is diversified in regard to skills and competences	3.59	.69
Composition		
The boards are composed of competent members	3.61	.78
During board formation, representation of all stakeholders is considered	3.55	.88
The integrity of board members is considered during board composition	4.02	.61
When appointing board member, there is gender balance	3.05	.79
During board composition, members' track record is considered	3.61	.78
The board co-opts members with expert knowledge and skill in particular fields.	3.06	.75
Independence		
The board has the mandate to carry out resource allocation	3.72	.83
The board takes decisions independently	3.34	.73
The board of the bank is autonomous	3.02	.83
The board decides on the internal controls to be instituted at the bank	3.95	.78
The bank has administrative and financial autonomy	3.62	.81
The bank is at liberty to carry our policy reviews	3.75	.79

Source: primary data, 2020

Regression Model

		Unstandardized Coefficients		Standardized Coefficients	
		B	Std. Error	Beta	
1	(Constant)	.863	.437		1.976 .0
	Boar Composition	.165	.148	.130	1.112 .2
	Accountability	.239	.115	.246	2.085 .0
	Transparency	.372	.115	.390	3.221 .0

Dependent Variable: Business management

R Square = 458

Adjusted R Square = .437

Source: Accountability, transparency and board composition predict 43.7% of business management (Adjusted R Square = .437). The regression model was significant and thus reliable for making conclusions and recommendations. The most significant predictor of business management was transparency (Beta= 0.390, t= 3.221, Sig. =

.002) followed by accountability (Beta= .246, t= 2.085, Sig. = .040) and then board composition (Beta= 0.130, t= 1.112, Sig. = 0.269). The findings revealed that accountability and transparency were strong predictors of organizational performance, whereas board composition did not register a significant effect on business management.

Conclusion

The findings on the effect of transparency and business management revealed a significant relationship. This is confirmation that information access, independent verification, and disclosure were paramount in influencing business management positively. The positive significant relationship between accountability on business management is justification that to promote effectiveness, efficiency and service delivery of the Equity Bank-Kampala.

The management of the Equity Bank-Kampala should ensure that the generated financial reports are accurate, relevant and reliable so as to enhance decision making at the bank which would in turn have a positive effect on the performance of the bank

The management of the Equity Bank-Kampala should ensure that the members appointed on the different boards and committees possess the required competences, promote gender balance and are independent during decision making

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