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# 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 flowing 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 α = 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

## INTRODUCTION

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.

**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).

**Regression Model**

**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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## Plan

**Abstract**

**Introduction**

- **Effect of Transparency on Business Management**
- **Effect of Transparency on Business management**
- **Effect of Board Composition on Business Management**
- **Findings**
- **Effect of Accountability on Business management**
- **Effect of Board Composition on Business management**
- **Regression Model**

**Conclusion**

**Dependent Variable**

**Reference**

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