

MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL

**CORPORATE GOVERNANCE, OPERATIONAL RISK
MANAGEMENT AND FINANCIAL PERFORMANCE OF NORTHERN
UGANDA FINANCIAL INSTITUTIONS**

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**A DISSERTATION SUBMITTED TO MAKERERE UNIVERSITY BUSINESS
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PLAN A

NOVEMBER, 2021

DECLARATION

I **Rwothomio Alex** declare that this research report is my own original work that has never been submitted to any University or Institution of learning for any award. The work of other researchers has been given due recognition by citations and referencing.

Signature: _____



Date: _____

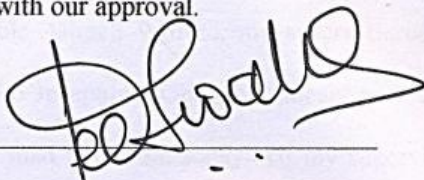
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APPROVAL

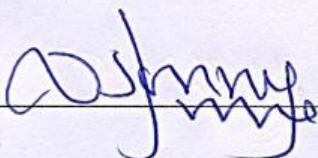
This is to certify that the research report on: **“Corporate Governance, Operational Risk Management and Financial Performance of Northern Uganda Financial Institutions”** by Rwothomio Alex was carried under our supervision as University Supervisor and is ready for examinations with our approval.

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DEDICATION

This research report is dedicated to the people who have made a difference in my life. To my mother Amia Jeres Anwangkane and my late father Anwangkane Dominic, my beloved wife Ocakacon Brenda, my children Afoyorwoth Martha, Yikparwoth Merryline, Nikristo Mable, Rwothomio Mathias, Rwothomio Alinda Lexy, my brothers Akera John Bosco and Mukasa Quinto, my uncle Alirach Wilfred, my sisters Berochan Harriet and Masendi Nancy, my friends Nyakecho Josephine, Obedgiu Vincent and Akera Robert for laying the foundation and raising the man that I am today. To my supervisors Dr. Sonny Nyeko and Associate Professor Twaha Kawaase Kigongo thank you for being patient and tolerant. I hope that you will be proud of what I am about to achieve. Indeed, you will remain a permanent mark in my life and I owe you intellectual thanks.

ACRYOMNS

BOU	Bank of Uganda
CBU	Central Bank of Uganda
CG	Corporate Governance
CVI	Content Validity Index
FIs	Financial Institutions
ORM	Operational Risk Management
MDIs	Micro Deposit Institutions
SPSS	Statistical Package for Social Sciences
UGX	Uganda Shillings
UK	United Kingdom
IT	Information Technology
ICT	Information Computer Technology
CEO	Chief Executive Officer

TABLE OF CONTENTS

DECLARATION	ii
APPROVAL	iii
DEDICATION	iv
ACRYOMNS	v
LIST OF TABLE	x
LIST OF FIGURE.....	xi
ABSTRACT.....	xii
CHAPTER ONE	13
INTRODUCTION.....	13
1.0 Introduction	13
1.1 Background of the Study.....	13
1.3 Purpose of the Study	15
1.4 Objectives of the Study.....	15
The study was conducted to achieve the following objectives;	15
1.5 Research Questions.....	16
1.6 Scope of the Study	16
1.6.1 Content Scope	16
1.6.2 Geographical Scope	16
1.6.3. Time Scope	16
1.7 Significance of the Study	17
1.8 Conceptual framework	18
Description of the conceptual framework.....	19
CHAPTER TWO	21
LITERATURE REVIEW	21
2.0 Introduction	21
2.1 Theoretical Review	21
2.1.1 Agency Theory.....	21
2.1.2 Stewardship Theory	23

2.1.3	Jorion Theory of Operational Risk Management.....	24
2.1.4	Liquidity Risk Theory.....	25
2.2	Conceptual Review	27
2.2.1	Financial Performance	27
2.2.1.1	Profitability	28
2.2.1.2	Capital Adequacy.....	28
2.2.1.3	Asset Quality.....	29
2.2.1.4	Operational Efficiency	30
2.2.2	Corporate Governance	31
2.2.2.1	Transparency.....	31
2.2.2.2	Accountability.....	32
2.2.2.3	Board Composition	33
2.2.3	Operational Risk Management	33
2.2.3.1	People Risk	35
2.2.3.2	Process Risk.....	36
2.2.3.3	Information Technology Systems	37
2.3	Empirical Literature Review.....	39
2.3.1	Corporate Governance and Financial Performance	39
2.3.2	Relationship between Operational Risk Management and Financial Performance.....	41
2.3.3	Relationship between Corporate Governance, Operational Risk Management and Financial Performance	42
2.4	Summary of Literature Review.....	43
	CHAPTER THREE	44
	METHODOLOGY	44
3.0	Introduction.....	44
3.1	Research Design.....	44
3.2	Study Population.....	44
3.3	Sample Size and Sampling Techniques	45
3.3.1	Sampling Size	45

3.3.2	Sampling Technique and Procedure.....	45
3.4	Source of Data and Data Collection.....	46
3.4.1	Primary Source.....	46
3.4.2	Secondary Source.....	46
3.5	Data Collection Instruments.....	46
3.5.1	Questionnaires.....	46
3.5.2	Documentary Checklist.....	47
3.6	Data collection Procedure	47
3.7	Measurement of the study variables	47
3.8	Control Measurement of the study Instruments.....	48
3.8.1	Validity	48
3.8.2	Reliability.....	49
3.9	Data Processing and Analysis.....	50
	CHAPTER FOUR.....	50
	DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS	50
4.1.	Introduction.....	50
4.2.	Response Rate	51
4.3.	Profiling of the characteristics of Respondents and Financial Institution	51
4.3.1	Demographic Characteristics of Respondents	51
4.3.1.1	Gender of Respondents	51
4.3.1.2	Age Group.....	52
4.3.1.3	Education level of respondents	52
4.3.1.4.	Position in the Financial Institution	53
4.3.2	Profile of Financial Institutions	54
4.3.2.1	Number of employees in the Branch	54
4.3.2.2:	Number of Branches	55
4.3.2.3:	Category of Financial Institution	56
4.4.	Factor Analysis	56
4.4.1	Corporate Governance	57

4.4.2 Operational Risk Management (ORM).....	59
4.4.3 Financial Performance (FP)	60
4.5 Correlation Analysis	62
4.6 Hierarchical Multiple Regression Analysis	63
CHAPTER FIVE	66
DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS	66
5.0 Introduction.....	66
5.1 Discussion of Findings.....	66
5.1.1 Corporate Governance and Financial Performance	66
5.1.2 Operational Risk Management and Financial Performance	67
5.1.3 Corporate Governance, Operational Risk Management and Financial Performance	68
5.2 Conclusion	68
5.2.1 Corporate Governance and Financial Performance	68
5.2.2 Operational Risk Management and Financial Performance	69
5.2.3 Corporate Governance, Operational Risk Management and Financial Performance	69
5.3 Recommendations.....	70
5.4 Limitations of the Study.....	70
Reference	71
APPENDIX I	76
QUESTIONNAIRE	76
Appendix IV: Table for Determining Sample Size from a Given Population.....	81

LIST OF TABLE

Table 4 .1 Sample Size Determination	53
Table 4 .2: Instruments validity	54
Table 4. 3: Distribution of respondents by level of education.....	55
Table 4. 4: Position in the Financial Institution.....	57
Table 4. 5: Distribution of the responses based on the number of employees.....	57
Table 4 .6: Distribution of responses on branches institutions have in northern Uganda	58
Table 4. 7: Category of Financial Institutions	58
Table 4.8: Summary of Factor Analysis on Corporate Governance.....	59
Table 4 9:Summary of Factor Analysis on Operational Risk Management	59
Table 4. 10: Summary of Factor Analysis of Financial Performance (FP)	60
Table 4. 11: Result of Pearson Correlation Analysis.....	63
Table 4 .12 : Showing the Regression Model Summary	64

LIST OF FIGURE

Figure 1. 1: Conceptual Framework	19
Figure 1. 2 Agency Theory	22

ABSTRACT

The study set out to examine effect of Corporate Governance, Operational Risk Management and Financial Performance of Northern Uganda Financial Institutions. The objective of this study is to: examine the relationship between corporate governance and financial performance of financial institutions; establish the relationship between operational risk management and financial performance and examine the relationship between corporate governance, operational risk management and financial performance of northern Uganda financial institutions.

The study used cross sectional design and data was collected from a sample size of 215 respondents (unit of inquiry) of which 124 were managers and 186 operations officers from a total of 62 financial institutions as the unit of analysis. The data collection tools used was questionnaires and documentary search. Analysis was done using a statistical package for social scientists (SPSS V20) software. The results show that there exists significant relationship between corporate governance and financial performance. The study concluded that corporate governance and operational risk management are important as they can help the firms manage their short-term problems in critical areas like costing, expenditure and cash flow, by providing information to support monitoring and control. It was also noted that corporate governance and operational risk management help management to improve operations, market position, and competitive advantage of their activities in the industry.

The study recommends that management of financial institutions should embark on providing adequate information for proper accountability and higher chances of Financial Performance and favorable competition by employing skilled personnel who have the required competency to run financial activities of the institutions as discussed in details by different scholars in the literaturereview.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter dealt with the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, the significance of the study and conceptual framework.

1.1 Background of the Study

Financial performance is crucial for financial institutions to achieve their goals of survival, development, and continuity in light of the internal or external challenges they face in their operations. Financial performance represents the accurate translation of the plans and objectives of the organizations and what they intend to achieve, for example resources, capabilities, and types of equipment to serve their purpose and meet their interests (Zyadat, 2016). Financial Institutions (FIs) generally seek to achieve adequate returns from their investments and engage in risky lending activities without appropriate risk assessment (Zagorchev & Gao, 2015). It illustrates that highly developed financial systems are exposed to systemic risks, weaknesses, and wrong doings when good corporate governance is lacking (Pathan & Faff, 2013).

Recently, financial regulators and central banks have stressed the need for effective corporate governance practices in the financial sector since failures and weaknesses in financial institutions' governance contribute to the development of financial crises (Basel Committee on Banking Supervision, 2010; Dixit *et al.*, 2015). In addition, Uwuigbe (2012) observed that the outcomes of better corporate governance translate into higher cash flows that is reflected in the firms' value and performance. On the other hand, it is noted that sound corporate governance in terms of stronger management oversight and better practices by the board of directors could

affect excessive risk-taking and performance of Financial Institutions (Adams & Mehran, 2012).

Most Financial Institutions in Uganda have continued to exhibit poor financial performance due to the low level of financial literacy, fewer people using banking services and high provisions on bad debts. As more people use the financial services and get financial literacy, the financial institutions can grow their income from charges and interests on loans leading to improved financial performance. Currently, all Financial Institutions are heavily investing in financial literacy to create awareness about the different products and services they are offering to their clients intended to increase the customer base and earnings hence, a healthy financial performance in terms of profitability (Omondi, 2015). The prevailing situation of loss-making by these financial institutions raises the need for more profound vigilance as it sends worrying signals with the shutting down of some commercial banks and takeovers (Muhirwa, 2016). Such financial challenges faced by financial institutions may lead to failure to attain desired levels of financial services culminating into continued poor performance financially and a sharp drop in their contributions towards Ugandan economy with the financial institutions operating in Northern Uganda suffering similar setbacks associated with low loan portfolios, low rate of repayment, among others, making the FIs to under perform.

1.2 Statement of the Problem

Although BOU instituted and implemented a series of monetary and fiscal measures to help support growth and stabilize financial markets, including providing liquidity support and reducing reserve requirements for all banks (BOU, 2019). The positive growth outlook is clouded by downside risks, including external risks from uncertainty in escalating global trade tensions, and the normalization of interest rates in advanced economies (IMF, 2019).

In spite of the continued robust economic growth and accommodative monetary policy are expected to support financial stability and boost private sector lending and improvement in asset quality. The prevailing situation of loss-making by these financial institutions raises the need for more profound vigilance as it sends worrying signals with the shutting down of some commercial banks and takeovers (Muhirwa, 2016). For instance, Customer deposits declined during the year by 14.8% as a number of wholesale accounts were exited in the face of the surplus liquidity. In addition, with the challenges initially experienced on the Finacle payment platform, the Bank witnessed a decline in the average balances on a number of corporate transactional accounts (BOU, 2019).

However, as highlighted above, there is a strong need to investigate the role of corporate governance, operational risk management within financial institutions as the highly regulated financial environment affects the supervisory conduct of boards (Mugisha, 2019). Hence, the study sought to establish the effect of Corporate Governance, Operational Risk Management and Financial Performance of Northern Uganda Financial Institutions.

1.3 Purpose of the Study

The study sought to examine the relationship between Corporate Governance, Operational Risk Management and Financial Performance of Northern Uganda Financial Institutions.

1.4 Objectives of the Study

The study was conducted to achieve the following objectives;

- i) To examine the relationship between Corporate Governance and Financial Performance of Northern Uganda Financial Institutions.
- ii) To establish the relationship between Operational Risk Management and Financial Performance of Northern Uganda Financial Institutions.

- iii) To examine the relationship between Corporate Governance, Operational Risk Management and Financial Performance of Northern Uganda Financial Institutions.

1.5 Research Questions

- i) What is the relationship between Corporate Governance and Financial Performance of Northern Uganda Financial Institutions?
- ii) What is the relationship between Operational Risk Management and Financial Performance of Northern Uganda Financial Institutions?
- iii) What is the relationship between Corporate Governance, Operational Risk Management and Financial Performance of Northern Uganda Financial Institutions?

1.6 Scope of the Study

1.6.1 Content Scope

The study focused on Corporate Governance and Operational Risk Management (as Independent Variables) and Financial Performance (as Dependent Variable) of Northern Uganda Financial Institutions.

1.6.2 Geographical Scope

The Financial Institutions in Northern Uganda included Commercial Banks, Micro-Credit Institutions, Forex Bureaus, Money Remitters; MDI's and Credit Reference Bureaus. The study was carried out among 79 Financial Institutions operating in the Districts of Northern Uganda such as Nebbi, Arua, Gulu , Koboko, among others.

1.6.3. Time Scope

The study collected data for five years (2015– Oct,2019). This period was adequate to enable the researcher collect data, which made the researcher come up with appropriate and reliable conclusion pertaining to the study problem.

1.7 Significance of the Study

The study aimed at understanding the extent to which Corporate Governance, Operational Risk Management and Financial Performance of Northern Uganda Financial Institutions. The results and findings of the survey shall also benefit owners of Financial Institutions and other stakeholders who will use the information to identify significant ways of managing Operational Risks to improve Financial Performance.

The findings of the study will help strengthen financial institutions business plans of Operational Risk Management. The study also aims at adding on the stock of knowledge on Operational Risk Management and Financial Performance of Financial Institutions in Uganda. In a nutshell, the study aims at identifying the areas Financial Institutions should concentrate on to realize better Financial Performance.

The findings of the study focused at understanding and improving the relationship between Corporate Governance and Financial Performance of Commercial Banks in Uganda. While empirical results are to provide general Corporate Governance Indicators useful to Central Bank of Uganda and the business community in formulating policies and making informed decisions at the various levels of management in Commercial Banks. This shall again add valuable information on corporate governance as a key enabler of developing the financial and economic perspective of individual banks and the entire banking industry in Uganda that will foster their performance.

The management of Financial Institutions in Uganda will benefit from the findings that will help them enhance responsible governance which leads to sustained productivity and better performance. This study will also enable commercial banks identify the best corporate

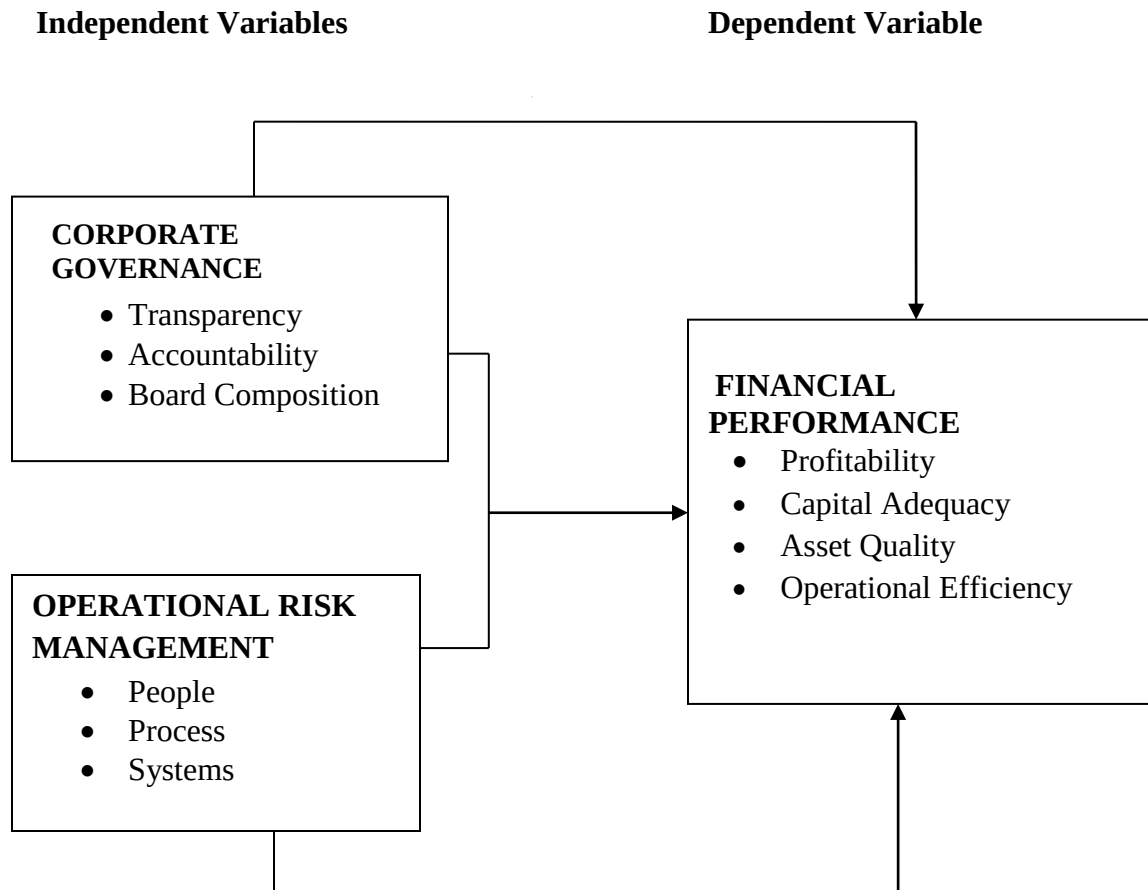
governance practices internationally and look into how such can be integrated in their business practices to enhance performance.

The study further aimed at improving the literature on Corporate Governance, Operational Risks and Financial Performance linkage which future researchers and academic institutions, especially those of higher learning can use the findings as a source for future reference. Thus the study will serve as a data base for further research.

1.8 Conceptual framework

The conceptual framework below explains the key concepts and variables that were used in the study and how they linked and interrelated with each other while providing the final outcome of the study. The conceptual framework was based on information from literature review as constructed in figure 1:

Figure 1. 1: Conceptual Framework



Source: Modified by the researcher after reviewing from(Dufera,2010; Afriye& Akotey,2010); Trabelsi, 2010; Mugisha,2014;Tanase & Serbu,2010;Fatihudin *et al.*, 2018; Matar & Eneizan, 2018; Naz *et al.*,2016).

Description of the conceptual framework

As conceptualized from the model, Corporate Governance (transparency, accountability and board composition) and Operation Risk Management (people, process and systems) are presented as the independent variable and Financial Performance (profitability, capital adequacy, asset quality and operational efficiency) as the dependent variable.

Financial Performance of the Financial Institutions is the primary interest of the research. Accordingly Financial Performance encompasses three specific areas of financial outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.). However, this study used profitability, Capital adequacy, Asset quality and operational efficiency as key elements for measuring Financial performance (Fatihudin *et al.*, 2018; Matar & Eneizan, 2018; Naz *et al.*, 2016). These elements were used because it is easy to quantify the results which enhances interpretations and drawing of conclusions basing on the empirical findings.

In recent years, many organizations have attempted to manage performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions (Dufera, 2010; Mugisha, 2014).

The determinants of Financial Performance are normally consisting of factors that are within the control of financial institutions. Financial Performance includes the factors that affect the revenue and the cost of the institutions. Some studies classified them into two categories namely the financial statement variables and non-financial variables (Afriye & Akotey, 2010; Spong & Sullivan, 2011).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provided logical reviews of literature related to the research topic under the sub-themes; the theoretical review, actual review with specific emphasis on the objectives and summary.

2.1 Theoretical Review

The concept of corporate governance in developed economies has been explained using various theories (Solomon, 2010). The theoretical review of this study is rooted in the learning literature and especially literature on corporate governance, operational risk management and financial performance. However, the agency theory advanced by Jensen, & Meckling (1976) and Stewardship theory advanced by Al-Hawary (2011) were used to guide the research and the various works put forward by the different scholars on the research problem helped to understand the influence of corporate governance, operational risk management on financial performance of financial institutions.

2.1.1 Agency Theory

Agency theory is widely used as a means of explaining various corporate governance issues. The essence of the theory is based on the existence of separation of ownership and control in large corporations. In such corporations, the managers (agents) are hired to work and make decision on behalf of the owners (principals) in order to maximize return to the shareholders [(Solomon, 2010). However, conflict of interest between the agent and the principal inevitably occurs when the agent fails to act in the best interest of the principal, and instead act to maximize their own value (Jensen, & Meckling, 1976).

Conflict of interest usually occur due to difference in their preferred level of managerial effort, their attitude towards risk, and their time horizons, which in turn may lead to divergence in the goals of managers and shareholders (Bozec, & Bozec, 2007). Consequently, different control mechanisms either internal or external to the firm should be put in place in order to align the interests of managers and shareholders (Solomon, 2010). Nevertheless, Al-Hawary (2011) argue that, assumptions made in agency theory about individualistic utility motivation resulting in principal-agent interest divergence may not hold for all managers; and therefore, exclusive reliance on agency theory is undesirable, because the theory ignores the complexities of organizational life.

Figure 1. 2 Agency Theory



Source: Klein (2009)

Principal-agent problem

As the agency relationship model is suitable for corporations, it demonstrates the essential need of corporate governance to cope with conflict of interest. The conflict of interest, as a rule, arises as the goals of shareholders and managers contrast, generally, the underpinning notion of the agency problem is that there is a great tendency for human beings to be more passionate about satisfying their own ambitions and wants, and will not be willing to forfeit those personal desires for other peoples' interests (Klein,2009;Amidu, 2011). Agency cost if not handled well in an organization can lead to either financial or reputational losses. Saeid and Sakine (2015) corporate governance can play an important role in minimizing the agency problem and ensuring

that management's interests are aligned with those of shareholders. Ideally the agency principal theory indicates that good governance practices involve decision making and placing the best interest of shareholders and stakeholders at par (Kimej, 2011). The agency theory suggests that shareholder interests will be protected by separating the posts of board chair and CEO (Ashenafi Beyene Fanta, Kelifa Srmolo Kemal, Yodit Kassa Waka, 2013).

Therefore, this study is focused on the premises that Financial performance of banks can be improved upon once agency theory is taken care off under corporate governance.

2.1.2 Stewardship Theory

The steward theory states that a steward protects and maximises shareholders wealth through firm Performance. As opposed to the agency theory, it maintains that managers are not motivated by individual goals but rather they are stewards, whose motives are aligned with the objectives of their principals shareholders (Al-Hawary, 2011). The theory assumes that;

The employees take ownership of their jobs and work at them diligently.

- Stewards (managers) are satisfied and motivated when organizational success is attained even at the expense of the stewards' personal goals.
- Employees or executives to act more autonomously so that the shareholders' returns are maximized.

The stewardship theory argues that shareholder interests will be maximized by assigning the same person to the posts of board chair and CEO to give more responsibility and autonomy to the CEO as a steward in the organization (Ashenafi *et al*, 2013). It argues that people are collective minded and pro-organizational rather than individualistic and therefore work toward the attainment of organizational, group, or societal goals because doing so gives them a higher level of satisfaction. Stewardship theory therefore provides one framework for characterizing the

motivations of managerial behavior in various types of organizations(Justin,Craig, Clay Dibrell,. Neubaum, Christopher, 2017). Thus, Organizations do not magically achieve excellence—it takes high performing leaders to drive organizational excellence by enforcing standards and values that are in the best interest of the organization.

2.1.3 Jorion Theory of Operational Risk Management

The importance of operational risk for financial institutions is well recognized and discussed in detail in leading risk management textbooks (Jorion, 2007; Hull, 2012; Crouhy, Galai & Mark, 2014).However, the difficulties in quantifying operational risk have led most of the recent literature to focus almost exclusively on measurement and estimation issues. Several studies estimate the distribution of operational risk losses using techniques from extreme value theory and data on large and infrequent operational losses (Chavez-Demoulin, Embrechts & Neslehova, 2006; de Fontnouvelle, Rosengren & Jordan, 2006; Moscadelli, 2004). These estimates combined with VaR models, determine regulatory capital against operational losses, as required by the Basel Capital Accord. De Fontnouvelle, Jordan, DeJesus-Ureff & Rosengren (2006) show that, the amount of capital held for operational risk may exceed capital for market risk. This theory provides a micro foundation of operational losses by considering the endogenous response of financial institutions to operational risk.

Following the intensity-based framework developed in the reduced credit risk literature (Duffie, Eckner, Horel & Saita, 2009), Jarrow ,2008) & Chernobai, Jorion & Yu ,2011) treat the arrival of operational losses as a conditional Poisson process. Jarrow suggests that both data internal to the firm and market are important to estimate the parameters of the operational loss processes. Using a large database of operational losses among U.S. financial institutions, Chernobai, Jorion & Yu find that young and more complex institutions tend to have a higher operational risk exposure,

and identify a positive correlation between operational risk and credit risk. Franks & Mayer (2001) provide a survey of the European asset industry, and identify misdealing, settlement problems, and errors in the computation of the asset value as the major sources of operational risk.

These findings are confirmed by Biais, Casamatta & Rochet (2003) using a different sample of European fund management companies. Biais, Casamatta & Rochet also propose a theoretical model based on agency frictions in which investors cannot observe the effort that investment companies exert to reduce operational risk. They show that the level of funds' capital can be useful to provide incentives and hence to reduce operational losses. In three recent papers Brown, Goetzmann, Liang & Schwarz (2008, 2009, & 2012) construct and use a measure of operational risk in the hedge fund industry, called the 13 ω -score, based on funds' mandatory disclosure of past legal and regulatory disputes. Exposure to operational risk, as measured by the ω -score, is associated with subsequent poor fund's returns (Brown, Goetzmann, Liang & Schwarz, 2008), and it may have more predictive power of future fund failure than financial risk (Brown, Goetzmann, Liang & Schwarz, 2009). The ω -score defined by integrating a database of operational due diligence reports conducted on behalf of fund investors (Brown, Goetzmann, Liang & Schwarz, 2012). Even though high operational risk could destroy investor value, the authors show that the investors' return-chasing behavior seems to be unaffected by the funds' exposure to this risk. The importance of this theory to the study is to help measure and estimate operational challenges in finance sector.

2.1.4 Liquidity Risk Theory

Halling & Hayden (2006) explains that a bank should define and identify the liquidity risk to which it is exposed for all legal entities, branches and subsidiaries in the jurisdictions in which it

is active. A bank's liquidity needs and the sources of liquidity available to meet those needs depend significantly on the bank's business and product mix, balance sheet structure and cash flow profiles of its on- and off-balance sheet obligations. As a result, a bank should evaluate each major on and off balance sheet position, including the effect of embedded options and other contingent exposures that may affect the bank's sources and uses of funds, and determine how it can affect liquidity risk. A bank should consider the interactions between exposures to funding liquidity risk and market liquidity risk (Jeanne & Svensson, 2007). A bank that obtains liquidity from capital markets should recognize that these sources are more volatile than traditional retail deposits. For example, under conditions of stress, investors in money market instruments may demand higher compensation for risk, require roll over at considerably shorter maturities, or refuse to extend financing at all.

Moreover, reliance on the full functioning and liquidity of financial markets may not be realistic as asset and funding markets may dry up in times of stress (Perera et al., 2006). Market illiquidity may make it difficult for a bank to raise funds by selling assets and thus increase the need for funding liquidity. A bank should ensure that assets are prudently valued according to relevant financial reporting and supervisory standards. A bank should fully factor into its risk management the consideration that valuations may deteriorate under market stress, and consider this in assessing the feasibility and impact of asset sales during stress on its liquidity position (Jenkinson, 2008). For example, a bank's sale of assets under duress to raise liquidity could put pressure on earnings and capital and further reduce counterparties' confidence in the bank, further constraining its access to funding markets. In addition, a large asset sale by one bank may prompt further price declines for that type of asset due to the market's difficulty in absorbing the sale.

Finally, the interaction of funding liquidity risk and market liquidity risk may lead to illiquidity spirals, with banks stockpiling liquidity and not on lending in term interbank markets because of pessimistic assumptions about future market conditions and their own ability to raise additional funds quickly in the event of an adverse shock (Guglielmo, 2008). A bank should recognize and consider the strong interactions between liquidity risk and the other types of risk to which it is exposed. Various types of financial and operating risks, including interest rate, credit, operational, legal and reputational risks, may influence a bank's liquidity profile. Liquidity risk often can arise from perceived or actual weaknesses, failures or problems in the management of other risk types. A bank should identify events that could have an impact on market and public perceptions about its soundness, particularly in wholesale markets (Akhtar, 2007).

This theory helps in identifying the risks and come up with measures to increase sector efficiency, maximizing consumer contributions through tariffs, and encouraging private sector funding. The option of tapping into private sector funding presents two challenges. First commercial lenders view the sector, as a high risk and secondly commercial interest are high. This means there is need for the sector to strategize liquidity management to enhance self-financing to ensure financial sustainability.

2.2 Conceptual Review

2.2.1 Financial Performance

World over, the achievement of any organization which is measured in terms of monetary value is through financial performance. Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management (Didin, 2017). Financial performance aims to inform stakeholders and thus encourage them to make decisions, which is a financial case for the company that includes the

collection and use of funds and demonstrates the company's ability to manage and control its resources (Aliona, 2016). Measuring Financial Performance Various methods may be used to measure a firm's financial performance. According to Samad & Glenn (2012), financial measures used in empirical research on financial performance fit into two broad categories, namely accounting-based measures and market-based measures. Analyzing financial ratios during a specific time is the best way to assess the financial performance of companies (Fatihudin *et al.*, 2018; Matar & Eneizan, 2018; Naz *et al.*, 2016).

2.2.1.1 Profitability

Profitability is a key target for all financial institutions as banks must keep adequate liquidity amounts so as to maintain the continuity (Samad & Glenn, 2012). The profitability help to increase bank deposit holders and potential investors as well as confidence and encourage the shareholders of capital to underwrite in the bank, plus they are used as a measure of performance of the bank's management(Lelgo & Obwogi,2018), where Give strong indications of the regulators that the bank is moving in the right direction, plus it gives an idea about the adequacy of bank management in directing projects, as well as it is a measure of the effectiveness of investment, operational and financing policies followed by the management of the bank(Qin 2012).

2.2.1.2 Capital Adequacy

Capital is essential and critical to the perpetual continuity of a bank as a going concern. Capital provides cushion that enables banks to continue to operate even if they suffer temporary losses (Bankers Association of Jamaica, 2015). The term capital adequacy expresses the capacity and efficiency of banks that measures, direct and control the risks it faces, in order to be scaled, control and making decisions consistent with the strategy and policy and to strengthen its

competitiveness attitude (Torbira & Zaagha,2016). Further it was noted that capital adequacy is beneficial in pricing banking services and maximizing returns from banks operations (David & Osemwegie, 2016).. Thus, commercial banks are obliged to provide sufficient capital to cover for any possible dangers that may occur, and develop the right strategy to ensure the survival of the bank with a higher percentage than the specified percentage and in order to avoid the intervention of monetary authorities to prevent its decline, which is known corrective actions (Trong , 2013; Rufo & John (2017).

2.2.1.3 Asset Quality

Asset quality as an aspect of bank management entails the evaluation of a firm asset in order to facilitate the measurement of the level and size of credit risk associated with its operation (Sile, Olwney & Sakwa ,2019). According to Abata (2014) non-performing assets(Loans)(NPL) has an inverse relationship with banks' financial performance. Aboagye & Otieku (2010) contended that for banks to continue operations; they must make enough money through lending and fiduciary activities or services to cover their operational and financing costs, plough back retained earnings to finance future operations. This will enhance not only the survival but also their growth and profitability. On the other side, if a bank's asset quality is insufficient such will have to increase its bad debt losses as well as expend more resources on the collection of non-performing loans (Abata, 2014; Sile et al., 2019). The costs include winning the trust from management and the public, preserving the safety and completeness of the banks, preventing the banks from being rated poor as a consequence of external affairs, reducing deposits because of a loss in clients' faith, extra costs to monitor loan quality, and higher future costs generated by the ignorance of the problems from other operations hence compromising the financial health of the institution (Khalid, 2012).

2.2.1.4 Operational Efficiency

Alemu (2016) opined that a firm's overall efficiency and performance are closely related. It is widely recognized that the operating efficiency of the financial institutions supports their functionality in the economy (Rozzani & Rahman (2013). In a vibrant and competitive banking system, only strong, technically efficient and profitable bank can promise a realistic return to their stakeholders and also noted that an efficient banking sector will be better able to withstand negative shocks and contribute to the stability of the financial system (Adusei, 2016;Addis & Alubel, 2019).While, Basu (2015) observed that operational efficiency is the capability of a business to deliver quality commodities to customers in the most cost-effective manner possible. The operating efficiency of a business in relation to the efficient utilization of the assets is reflected in net profit margin (Sohail (2018). Relatively, more efficient firms tend to maintain more stability levels in terms of output and operating performance compared to their other industry peers (World Bank Policy Research Working Paper, 2017). There are several ratios of measuring operational efficiency are Total Asset Turnover ratio ,Fixed-Asset Turnover ratio and Equity Turnover .These ratios shows whether the firm is managing operational cost efficiently which will ultimately have an influence upon its profitability (Rao & Lakew, 2012). Improving operating cash flows, increasing total asset turnover, and effecting reductions in operating risk are all signs of relative operational efficiency (Gill *et al.*, 2014; Owolabi & Obida, 2012). Operating in an efficient manner can help to minimize working capital spending and thus enhance financial performance of companies (Owolabi & Obida, 2012). When the operational efficiency of companies increases, it tends to reduce working capital spending and thus increase financial sustainability of the firm.

2.2.2 Corporate Governance

According to Kamaite (2016), Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit (Naheem & Md. Nazmul, 2015).

2.2.2.1 Transparency

Transparency refers to actions that enable a problem becomes clear, easy to understand, and no doubt its truth (Almustafa, 2017). While Mohammad (2015) noted that openness /transparency attitude is attitude to be willing to tell and willing to accept the knowledge or information of the other party. Transparency and accessibility should be provided to the information on company's financial and operational performance and results, key company's goals and interest, major and minor shareholders, voting and selecting policies potential risks, concerns regarding stakeholders, a corporate governance framework and structure (Dwiri, 2015). The benefits of healthy governance frameworks are well known (Claessen & Yurtoglu, 2013) and include better performance and efficiency, greater access to financing, lower cost of capital, and a more favorable treatment of all stakeholders. Equally, poor corporate governance can increase risks by affecting the quality of bank assets and causing financial volatility, and are often associated with lack of transparency. The failure and distress conditions of many banking firms post-global financial crisis have reignited the debate over (ACCA, 2013; Hasan & Anita, 2018). The essence of corporate reporting is to make essential information known to all interested parties in the organization (Chen, Lai, & Chen, 2012). Corporate reporting involves both financial reporting and non-financial reporting. Financial reports are sought after because of information asymmetry and conflict between company executives and shareholders. (Salami, 2011). Studies

have shown that systems of corporate governance which produce a more transparent and accountable system of leadership have a greater propensity to disclose information voluntarily. (Huafang & Jianguo, 2007; Hasan & Anita, 2018).

2.2.2.2 Accountability

In the world today, corporate governance and accountability has assumed critical importance in the socio-economic and political systems (Anastasia & Lilis, 2012). Accountability is an essential ingredient for a sound system of corporate governance. The reason underlying this argument is that shareholders' interests can only be satisfied by taking account of stakeholder interests, as companies that are accountable to all of their stakeholders are over the long term more successful and more prosperous (Luypaert & Van Caneghem, 2015). The World Health Report (WHO) (2019) uses the concept "stewardship" to capture these functions, although it has thus been suggested that "governance" is a more comprehensive, widely recognized, and thus preferable term (IFAC, 2016 ;Orient bank's business academy, 2018). According to Luypaert and Van Caneghem (2015) Accountability is one of the foundations of good governance and it ensures actions and decisions taken by officials of an institution are subject to oversight so as to guarantee organizations meet their stated objectives and respond to the needs of the community they are meant to be benefiting, thereby contributing to better governance hence good performance. However, accountability exists when there is a relationship where an individual or body, and the performance of tasks by that individual or body, are subject to another checks that they provide justification for their actions. Kordnaeich, & Fani (2014) notes accountability is one area where the corporate success of the future will be measured and there is a demand for greater accountability and a growing perception that companies that are accountable to a broad range of stakeholders display better long-term performance.

2.2.2.3 Board Composition

The board of directors is very vital for good corporate governance if its composition and structure, method of appointment, policies on remuneration and self-dealing are strategically taken care of (Hasan & Anita, 2018). The board of directors' duties include, 'giving strategic direction to the company; ensuring compliance with laws and regulation; and overseeing and monitoring management (Hurtado, 2016). In Uganda, the board of director practices is influenced by the 'board size, composition and independence' (Tusiime et al., 2011). Other duties noted by (Salami, 2011) include ensuring that 'adequate information flow mechanisms exist'. Board composition refers to the manner in which executive and non-executive directors, including independent non-executive directors are represented on the board (Tusiime *et al.*, 2011). Research reveals that though outside directors are considered highly practical the size should be small for good corporate governance to occur (Yammitesri & Herath, 2010). There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions (Hasan & Anita, 2018). Smaller boards also reduce the possibility of free riding by, and increase the accountability of individual directors (Hagendorff & Eshraghi, 2015). Independent directors, are deemed better suited to monitor and control managers (Pathan & Faff, 2013).

2.2.3 Operational Risk Management

Just as in any other field of business, factors such as people, internal processes, technological systems and external events play a key role in financial institutions. It is in the natural interests of every financial institution to ensure such factors provide it with maximum support in achieving its business goals (Basel Committee on Banking Supervision, 2011). However, these factors inherently involve various risks stemming from potential failures which can affect the operations

and thus also the outputs and results of a financial institution. This leads to the widely accepted definition of operational risk in the banking sector: "Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk"(Festus & Obafemi, 2015). While The Basel Accord (2007) defines operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Malfunctions of the information systems, reporting systems, internal monitoring rules and internal procedures designed to take timely corrective actions, or the compliance with the internal risk policy rules result in operational risks (Muriithi & Waweru. 2017)). From the definitions, operational risk is better viewed as the risk arising from the execution of an institution's business functions. Operational risk exists in every organization, regardless of size or complexity from the largest institutions to regional and community banks. Examples of operational risk include: Risks arising from catastrophic events (e.g., hurricanes); Computer hacking; Internal and external fraud; the failure to adhere to internal policies among others (Hamdu & Adriana, 2016).

Operational Risks appear at different levels, such as human errors, processes, and technical and information technology. Because operational risk is an event risk, in the absence of an efficient tracking and reporting of risks, some important risks will be ignored, there will be no trigger for corrective action and this can result in disastrous consequences. Developments in modern banking environment, such as increased reliance on sophisticated technology, expanding retail operations, growing e-commerce, outsourcing of functions and activities, and greater use of structured finance (derivative) techniques that claim to reduce credit and market risk have contributed to higher levels of operational risk in banks (Third-Party Risk Management: Driving Enterprise Value ,2018). The recognition of the above-mentioned contributory factor in operational risk has led to an increased attention on the development of sound operational risk

management systems by banks with the initiative being taken by the Basel Committee on Banking Supervision (2011) by requiring supervisors to ensure that banks have risk management policies and processes to identify, assess, monitor, and control or mitigate operational risk (Bessis, 2010).

2.2.3.1 People Risk

According to Jussi (2016) People Risk in an organisation refers to the costs that will arise as a consequence of things that happen to its people. People are the single most important asset in any business but they are also the most vulnerable asset. People can breakdown and suffer damage just as in the case of machinery and property. However people can be harder to repair and the consequences can be more serious. People also age and will one day wish to retire from work. Planning ahead with financial provisions and succession plans will make that transition easier (Olalere & Wan Ahmad Bin Omar, 2016). According to Tamimi (2015) People risk is having the wrong people in the right positions, failing to understand brand and having a weak tone at the top that sets little precedent. People risk is the uncontrollable side of what people do. People are the crux of any risk management framework. No risk manager will argue against people being considered the most valuable asset in an organization.

People Risk Management provides unique depth to a topic that has garnered intense interest in recent years. Based on the latest thinking in corporate governance, behavioural economics, human resources and operational risk, people risk can be defined as the risk that people do not follow the organization's procedures, practices and/or rules, thus deviating from expected behaviour in a way that could damage the business's performance and reputation. From fraud to bad business decisions, illegal activity to lax corporate governance, people risk - often called conduct risk presents a growing challenge in today's complex, dispersed business organizations (Keith & McConnell, 2016). Siminyu, Clive, & Musiega,(2017) disclosed that People risks are

numerous and multi-faceted from workplace safety, absenteeism and succession planning, through to loss of key people and other internal issues, such as fraud and theft of material and intellectual property.

In addition, Current risk and control functions require not only employees with technical skills but also staff who are creative, assertive, and flexible in fast-changing business environments. In addition to individual talent management, which attracts and develops individuals, collective talent management ensures that an appropriate balance of talented people cooperate in the best way to realize effective risk management (Siminyu et. al, 2017). Okeke, Aganoke, & Onuorah (2018) emphasized that to mitigate peoples' risk, employee needs should be one of the topmost priorities. However, efficient monitoring and auditing across the workforce is not enough. Ensuring personal satisfaction of employees, providing them the right incentives and conducting activities of their interest, all lead to high operational scores in risk reports (Azamat, 2014), improved employee productivity; reduced rates of absenteeism; Improved employee health and wellbeing; a positive employer brand that helps with attracting new talent; increased employee motivation and improved employee retention (Jussi, 2016).

2.2.3.2 Process Risk

Process Risk is considered to be a sub-component of operational risk. It exists when the process that supports a business activity lacks both efficiency and effectiveness, which may then lead to financial, customer, and reputational loss (Olusanmi, 2015). This form of risk may be present within any stage of business transactions (Lam, 2014). The majority of operational risk events occur due to losses from ineffective processing of business transactions or process management, and from inadequate relations with trade counter parties and vendors (Girling, 2013). It is difficult to eliminate all process risk due to the high dependency on complex environments and

the high input of human resources. Certain business practices applied to its processes, such as standardization, is an example of how to minimize operational risk (Tursoy, & Faisal, 2017). Furthermore, Event logs is one approach to mitigate process risk. The use of events logs can help risk managers oversee and evaluate a consolidated database with all associated process risk. This approach does not completely eliminate process risk, yet it is a tool for the evaluation of the overall risk exposure so that the company may be able track and manage the risk linked to the overall business processes (Pika, van der Aalst, Wynn, Fidge, ter Hofstede, 2016). And before processes are aligned to business objectives, they should be tweaked to suit employees for a constructive work system (Tamimi, 2015)

2.2.3.3 Information Technology Systems

Information System includes the related business processes, relevant to financial reporting and communication. Hall (2013) said that an information system consists of infrastructure (physical and hardware components), software, people, procedures, and data. Infrastructure and software have less significance, in systems that are exclusively or primarily manual. Many information systems make extensive use of information technology (IT). IT as defined by Ariane (2019) is technology that merges computing with high speed communications links carrying data, sound and video. The ACPR's definition is: "IT risk" (or "information and communication technology risk" (ICT) or "information system risk") is the risk of loss arising from an inadequate organisation, failure, or insufficient security of the information system, which includes all systems equipment, networks and human resources devoted to processing the institution's information. This definition is consistent with an operational risk approach because, if the risk is realized, it results in a loss (or near-miss, opportunity cost, undue gain or additional costs). This definition is broad in scope and applies to the information system as a whole, i.e. its technical systems and organisation, as well as the human resources involved in data processing. It also

applies regardless of the term used (information system risk, ICT risk or IT risk) (Marc , Carteau, Cornaggia,Pascale, Cyril T, Corinne ,2018) .

The reliance on technology by institutions to achieve business objectives is increasing (Carcary, 2013). However, to realize the benefits of technology in business, management of risks associated with technology is essential (Carcary, 2013). Understanding an institution's risk appetite and tolerance fosters informed risk decisions by management, which aids in reducing losses and allowing the institution to take advantage of new opportunities (Fox, 2012). McNally (2015) suggested effective internal controls and risk management are essential to the achievement of an organization's vision, strategic plans and objectives, and delivering value to the organization's stakeholders.

Despite the benefits of other IT risk management frameworks, the coverage of IT risk management in COSO is generic (Svatá & Fleischmann, 2011). To effectively manage technology risks, management should seek to obtain detailed information regarding these IT risks (Svatá & Fleischmann, 2011). Janvrin *et al.* (2012) suggested that COSO framework was inadequate to manage technology risks. According to Janvrin *et al.*, technology is essential for businesses success, and so IT should be prominent in the COSO framework. However, Babb (2014) suggested that the enhanced COSO framework is comprehensive, and so management could perform effective IT risk governance activities including IT risk management. Al-Ahmad & Mohammad (2013) noted that management should develop and implement a selection model to identify the appropriate framework for the institution before adopting a framework to manage IT risk. Chernobai *et al.* (2008) noted that IT systems in banks are utilized to increase process efficiency and effectiveness. These systems make bank operations faster, compliment employee performance and improve data flow. Poorly designed systems may increase operational risk in

banks because they are unfit for purpose. There are various problems experienced when they fail including fraud, processing errors and data security failures, which might ultimately result into huge financial losses.

2.3 Empirical Literature Review

2.3.1 Corporate Governance and Financial Performance

According to (Dalwai, Basiruddin *et al.* 2015) an executive performs the duty of protecting and maximizing returns for shareholders by increasing a firms' profitability, as the main task outputs of the steward. In most cases, boards are composed of government and non-executive administrators. Government administrators are the dependent administrators whereas non-executive administrators are the freelance administrators (Shah *et al.*, 2011). To make effective operations of board and unbiased observance, a minimum of one third of freelance administrators are must be instituted on board. Executive administrators also are necessary as they possess corporate executive data of the firm(Nguyen, Locke *et al.* 2014). Associate degree freelance board is mostly created of members with no ties to the firm thus probabilities for conflict of interest are eliminated or reduced.

The composition of the board has been perceived to be a factor that affects the corporate governance policies developed for the management of financial institutions. According to a study by (Hassan *et al.*, 2017) the larger the boards composition, the less effective the corporate governance system. With a significant number of members of the board, it may not be possible to address most of the challenges affecting the boards in an effective manner. It was also illustrated that when the composition of the board has significantly increased, it usually becomes a lot of symbolic, as against fulfilling its purpose of the management. However, small boards do not reap from the advantages of getting professional contribution and other attributes associated with

larger managerial boards. Larger boards are faced with the responsibility to manage issues such as gender balance, status, and differences in expertise (Dalton & Dalton, 2015). (Salim, Arjomandi *et al.* 2016) explained that organizations with smaller boards compositions such as 5 members are higher up on concerning the earnings of the firm and so are often thought to be having superior observance skills.

In agreement with the aforementioned findings, Mak & Yuanto (2013), explained that the analysis of corporations in Singapore and Malaysia were more effective when the boards were composed of 5 members. According to Bennedsen, Kongsted & Nielsen (2014), in an examination of medium-sized corporations of Danish origin, there is no relationship between board composition and performance because a board composed of less than six members has a negative relationship to a firm's performance in the same manner as a board composed of only 2 members. Another study was conducted by (Nguyen, Locke *et al.* 2014) but resulted into the establishment of no correlation between the composition of board and its performance. The study involved a comparison of board compositions of Japanese and Australian companies.

Furthermore, Bonn, Yokishawa & Phan (2014), showed that the composition of boards and the resulting performance did not have any relationship to the Corporations in Japan but had relationships when two variables were used in Australian organizations. Another study was conducted by (Zagorchev & Gao, 2015) in an investigation of the factors affecting the performance of the top managements of organizations and resulted into the finding that a higher positive performance was achieved when larger boards were used.

Zagorchev & Gao (2015) conducted a study that focused on the analysis of the association between composition of boards and the resulting performance and recommended that the performance of the corporation were affected by factors such as trade policies indicating that the

compositions of boards were a determining factor for their effectiveness. A study was conducted by Dalwai, Basiruddin *et al.* (2015) that involved a meta-analysis of 131 scholarly studies and resulted into the finding that larger boards contributed to higher financial performance compared to smaller boards.

2.3.2 Relationship between Operational Risk Management and Financial Performance

Rasid *et al* (2011) risk management in an organization influence the organization performance, through enhanced risk management practices. Rasid *et al.* (2011) further revealed that risk analysis of financial statement was allegedly the largest contributor towards risk management while budgeting and strategic planning are indispensable players in managing risk, which affect the financial institutions profitability. Mwaipopo (2012) revealed that some risk management practices do have significant effect on financial performance more than others i.e. the existence of a risk management policy and the integration of risk management in setting of organizational objectives were considered to be the key risk management practices that had a direct effect on financial performance.

Previously, financial institutions provided a variety of savings accounts, debit and credit card services, as well as loans and investment plans but today the financial industry has evolved in its scope responding to the changing nature of its environment. It has now transformed into the online banking era, where financial institutions nowadays are exploring new methods of delivering their services to their customers (Lin, 2010). The financial services provided by financial institutions are essential to economic and financial development (Nwite, 2011), their role as financial intermediaries facilitates rapid economic growth. Financial stability is vital for any nation so therefore the financial institutions need to be properly managed. The velocity of loan creation in an economy significantly influences the productive activities in a nation (Afriyie

& Akotey, 2011). Moreno, & Pop (2011), the financial institutions are financial intermediary licensed to perform one or more of the following functions; safeguard and transfer funds, lend or facilitate lending, guarantee creditworthiness, provide overdrafts and loans and provide foreign exchange. The more services they offer which are tailor made to fit customers' demands the more the customers enjoy and this improves the financial performance of these financial institutions.

From the proceeding sections, the key aspects derived for the empirical investigation are corporate governance, operation risks management and financial performance of financial institutions. In this section, the key concepts are explained and their link highlighted.

2.3.3 Relationship between Corporate Governance, Operational Risk Management and Financial Performance

Financial Institutions play an important role in the financial system and the economy. Financial institutions function as financial intermediaries that transform savings into investments, and deal with loans in an efficient manner, where stronger financial institutions provide greater confidence (Rumler et al., 2010; Zagorchev & Gao, 2015). Economic growth is highly dependent on the financial industry output (Abu-Alkheil, Burghof, & Khan, 2012). The intense competition within the financial sector has driven the different financial institutions to innovate, compete, and generate value for customers with long-term benefits (Torbira & Zaagha, 2016). Efficiency of financial institutions is noted in performance measurements so as to help management to improve operations, market position, and competitive advantage (Lin, 2010; Moreno, & Pop, 2011; Abu-Alkheil et al., 2012). Performance measurement has been defined as a process of quantifying the efficiency and effectiveness of an action by (Addis & Alubel, 2019). Sile, et al., 2019); point out how operational risk management and a prioritization process must be followed

whereby the risk with the greatest loss and greatest probability of occurrence is handled first and risks with lower loss are handled later.

2.4 Summary of Literature Review

This chapter focused on the concepts of corporate governance, operational risk management and financial performance of northern Uganda financial institutions .From this literature review it is evident that corporate governance, and ORM are contemporarily key issues in the banking industry which is faced with complexity in the global environment. It seems the main operation exposures to a bank fall within the broad categories of people, processes, systems and those factors outside the direct control of the bank. It is also evident that financial institutions should consider the outcomes of more than one results methodology before making crucial risk management decisions in order to ascertain sound results. Also the role of the board of directors, transparency and accountability are emphasized in this discussion to ensure effective corporate governance and a sound operational risk management of the financial institutions. Policies and procedures, internal controls and risk reporting are the other elements of risk management, which are identified as forming an important part of operational risk management.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter addresses the methods that were used to carry out the study. It includes the research design, the population, sample size and sampling strategies, data collection instruments, data quality, measurement of variables, the data analysis, validation and limitations of the study

3.1 Research Design

This study employed a cross-sectional approach. This was because it is the best for collecting information that demonstrated the relationship and described what existed in relation to the variables. Cross-sectional design was used in this study because it enabled the researcher collect data at one point in time to examine the relationship between the study variables. The study also adopted a correlation research design to establish the relationships between corporate governance, operational risk management, and financial performance.

3.2 Study Population

The financial sector in Uganda is divided into Four Tiers: Tier 1 – Commercial banks; Tier 2 – Credit Institutions and Finance Companies; Tier 3 – MDIs; and Tier 4 –SACCOS and all other non-deposit taking financial institutions (FinScope, 2013; BOU, 2015; AMFIU, 2016). For purpose of this study, a total of 62 financial institutions were considered as per table 3.1 below. The key respondents were 124 top managers and 186 operations officers. From each institution 5 respondents were involved in this study giving a total of 310. These are the officers of the financial institutions who are involved in the day to day running of the institutions and are always confronted with issues of corporate governance and operational risk management process.

Table 3. 1: Category of Financial Institutions

Category of Financial institutions	Target Population	Sample Size
Commercial Bank	13	08
Micro-credit Institution	15	15
Forex Bureau	12	04
Money Remitter	6	04
MDI	14	12
Credit Reference Bureau	02	00
Total	62	43

Source: Primary Data

3.3 Sample Size and Sampling Techniques

3.3.1 Sampling Size

The samples were carefully selected from 62 financial institutions to be the representative of the entire population. The determination of the sample size was based on Krejcie & Morgan (1970) sample size determination table as reflected in the table below.

Table 3.2 Sample Size Determination

Category of respondents	Population	Sample size
Top Managers	124	92
Operation officers	186	123
Total	310	215

From the target population of 310, a sample size of 215 respondents was drawn using the model by Krejcie & Morgan, 1970 as shown in table 3.1 above.

3.3.2 Sampling Technique and Procedure

Mugenda & Mugenda (2012) define sampling as a formulation of a procedure of selecting the subjects or cases to be included in the sample. This study used simple random sampling. According to Mugenda & Mugenda (2012), simple random sampling involves allocating equal chance to the selected elements in the population. This method involved giving a

number to every respondent in the accessible population, placing the numbers in a container and then picking any number at random.

3.4 Source of Data and Data Collection

3.4.1 Primary Source

Primary data were collected from respondents by use of Questionnaires. Self-administered questionnaires were used to collect data from respondents. The questionnaire provided adequate representation of reliable data on corporate governance, operational risk management and financial performance of the financial institutions

3.4.2 Secondary Source

Secondary data were got from journals, reports, magazines, minutes and internet materials which were in line with the study objectives and this method was considered to be cheap and time saving.

3.5 Data Collection Instruments

3.5.1 Questionnaires

The researcher used questionnaire with close ended questions as the main data collection tool. The instruments were administered among the 215 respondents selected 173 responded and returned the questionnaires from financial institutions of northern Uganda. The questionnaires covered three sections; one section on general information about the respondents and the business; the rest were on the variables under study. The study adopted a likert Scale with a five-point of; strongly agree = 5, agree=4, not sure=3, disagree=2, strongly disagree=1. This instrument was appropriate to the study owing to the fact that it is less expensive to administer and easy to use and analyze, compared to other instruments such as focused group discussions and observations (Amin, 2005).

3.5.2 Documentary Checklist

The researcher reviewed documents in order to obtain recorded information related to the issue under investigation. Documents reviewed included policy documents, credit manuals, annual reports, monitoring and evaluation reports and other reference documents that are used in the institutions were used to supplement already given information by the questionnaires.

3.6 Data collection Procedure

Having received an approval of the research proposal, a letter of introduction was obtained from the Director School of Graduate studies and research, MUBS: subject, “To whom it may concern”, which the researcher used in collecting data from the field. This research introductory letter was further to build the confidence of the respondents from financial institutions to prove that the research study was purely academic not otherwise. The researcher maintained a close follow up of the completed questionnaires to speed up the data collection process so that data analysis could be done within the stipulated time frame.

3.7 Measurement of the study variables

Measurement of variables gives the researcher information regarding the extent of individual difference on a given variable (Mugenda & Mugenda, 1999). The appropriate measurements of instruments were used to measure and categorize data in an orderly form using a five Likert scale on the questionnaire as Strongly agree(5), Agree(4), Not Sure(3), Disagree(2) and Strongly disagree(1) . However, the use of five point Likert items take longer to complete.

Corporate governance was measured using transparency, accountability and board composition (Trabelsi, 2010; Tumuheki, 2012; Naheem & Islam, 2015); operational risk management among financial institutions in the northern Uganda was measured using people, process and systems (Rasid et al, 2011; Mwaipopo, 2012) and Financial Performance was measured using

profitability, capital adequacy, asset quality and operational efficiency(Fatihudin *et al.*, 2018; Matar & Eneizan, 2018; Naz *et al.*, 2016). These were anchored on a five- point likert scale ranging from 5 = strongly agree to 1= strongly disagree as used containing standardized items and adjusted to the local situation. Likert scale used is limited to quantitative work rather than qualitative.

3.8 Control Measurement of the study Instruments

3.8.1 Validity

In this study, the validity of the instruments was established by seeking expert advice on the contents of the research instrument, ambiguities in questions and their relevance to the study. This made the instrument to measure what it intended to measure. After identifying the vague and ambiguous questions, corrections were made and final instrument prepared through the guidance of the supervisors. According to Amin (2005), validity is the ability to produce findings that are in agreement with theoretical or conceptual values, in other words, to produce accurate research results. A Content Validity Index (CVI) was computed to make sure that the questionnaires are valid.

Note: $CVI = K/N$

where: $CVI = \text{Content Validity Index}$
 $K = \text{Number of items considered relevant}$
 $N = \text{Total number of items considered in the instrument.}$
 Thus; $CVI = \frac{\text{Items rated very relevant by both raters}}{\text{Total number of items in the Questionnaire}}$

The questionnaires were pilot tested among 20 staff of financial institutions in, Nebbi , Arua ,Moyo and Gulu Districts who were not part of the sample. This was intended to find out language clarity, ability to tap correct information, length and protection of the privacy of

respondents. The researcher also submitted the instruments to the supervisor for validation. The results were shown in the table 3.2 below.

Table 3 .3: Instruments validity

S/No.	Description	Number of Items	Number of Relevant Items	CVI
1.	Corporate Governance	20	19	0.95
2.	ORM	15	14	0.93
3.	Financial Performance	15	15	1.00
Overall average CVI				0.96

From the table above, the Overall result of CVI is 0.96 which is above 0.7 recommended by

Amin (2005). This showed that the instruments were all valid and able to tap correct information.

3.8.2 Reliability

To determine the consistency of the instrument in picking the needed information, this was done by pre-testing the questionnaire on a sample of the intended respondents. The Cronbach's Alpha coefficient was used to measure the internal consistency and thus the reliability of the questionnaire. The instruments for data collection were subjected to reliability test. The Cronbach Alpha coefficient reliability was used for ascertaining the consistency of the instruments. The results are shown in table 3.4 below:

Table 3 .4: Reliability

S/No.	Description	Number of Items	Cronbach's Alpha
1.	Corporate Governance	20	0.874
2.	ORM	15	0.816
3.	Financial Performance	15	0.758
Overall average			0.816

The general result is 0.816 which is above 0.7. According to Cormack (2013), the results should be 0.7 and above in order to be reliable. This helped to ensure appropriateness of questions, comprehension by the respondents and that there is no problem with wording of questions.

3.9 Data Processing and Analysis

Data from the field were compiled, sorted, edited and coded to have the required quality, accuracy and completeness. Then the data were entered into the computer using the Statistical Package for Social Sciences (SPSS 20) for analysis. The data were analyzed according to the research questions. Descriptive statistics was used in the presentation and analysis of empirical results in the form of tables. Correlation and regression tests were used to establish the existence and nature of relationship between corporate governance, operational risk management and financial performance of northern Uganda financial institutions.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1. Introduction

This chapter presented and analyzed the data collected from the field. The results were presented under the sections of response rate, demographic information of the respondents, and descriptive statistical analysis of the results of the findings using frequencies, percentages, mean and standard deviation. The analysis and presentation were based on three specific objectives of the study using correlations, and Regression Analysis.

4.2. Response Rate

This indicates the number of respondents that completed and returned the questionnaires compared to the total questionnaires distributed to all the respondents (Saunders *et al*, 2012).

$$\text{Total response rate} = \frac{\text{Total number of responses}}{\text{Total number of sample size}}$$

As the response rate was above 2/3 of the total questionnaires distributed, the results thereof will help in generalization since the sample is a perfect representation of the study population, and ensure that non-response biases are reduced (Etyang, 2018). Of the overall 215 questionnaires distributed to various financial institutions operating branches in northern Uganda, 173 completed and returned the forms giving a response rate of 80% which was considered to be significant since it is greater than 2/3 of the respondents (Etyang, 2018), though Amin (2005) suggests that a response rate greater than 50% is representative.

4.3. Profiling of the characteristics of Respondents and Financial Institution

In this section of the study, demographic information such as gender, age, level of education, position in the financial institution, duration in the institutions, number of employees, number of branches the institution has and Category of the financial institution were taken care of in this section. This was imperative since these factors may have an effect on corporate governance, operational risk management that foster financial performance of the financial institutions.

4.3.1 Demographic Characteristics of Respondents

4.3.1.1 Gender of Respondents

Table 4 .1: Distribution of various respondents by Gender

		Frequency	Percent	Cumulative %
Valid	Male	120	69.4	69.4
	Female	53	30.6	100.0
	Total	173	100.0	

Source: Primary Data

Table.4.1 above shows that (120) 69.4% respondents were male compared to 53(30.6%) female. This was because most of the male respondents were reliable and very co- operative. The female group were rather busy to complete the questionnaires due to varying responsibilities and commitments. That is why their participation was very minimal.

4.3.1.2. Age Group

Table 4 .2: Distribution of various respondents by age

	Frequency	Percent	Cumulative %
Valid 18-30	76	43.9	43.9
31 – 39	79	45.7	89.6
40 – 49	14	8.1	97.7
50 & Above	4	2.3	100.0
Total	173	100.0	

Source: Primary Data

From the results presented in the table 4.2 above, it was found out that those respondents in the age group between 31-39 years were the majority (45.7%), followed by respondents in the age group of between 18 – 30 years (43.9%), 40- 49 age group accounted for 8.1% and lastly 2.3% were in the age group of more than 50 years. This implies that majority of the staff are still in the active youth age bracket ranging from 18 years to 39 years. They can easily enhance performance of the financial institutions.

4.3.1.3 Education level of respondents

This section presents distribution of respondents with respect to their highest level of educational qualification as per table 4.3 below.

Table4. 1: Distribution of respondents by level of education

	Frequency	Percent	Cumulative %
Valid Certificate	10	5.8	5.8

Diploma	48	27.7	33.5
Bachelor's Degree	107	61.8	95.4
Master's Degree	7	4.0	99.4
PhD	1	0.6	100.0
Total	173	100.0	

Source: Primary Data

The researcher sought to establish the level of education of the respondents and the results showed that 107(61.8%) respondents were bachelor's degree holders, 48 (27.7 %) had diplomas, 10 (5.8%) had certificates, 7(4.0%) respondents had a Master's degree and only 1 person holds a PhD accounting for 0.6%. The result shows that majority were well educated to comprehend corporate governance, operational risk management and understand the questionnaires. Further this should help in designing appropriate strategy that enhances financial performance of the financial institution.

4.3.1.4. Position in the Financial Institution

Responses on the position in the financial institution is summarized in the table 4.4 below

Table 4. 2: Position in the Financial Institution

		Frequency	Percent	Cumulative %
Valid	Branch Manager	36	20.8	20.8
	Branch Operations Manager	39	22.5	43.4
	Others	98	56.6	100.0
	Total	173	100.0	

Source: Primary Data

The result in the table 4.4 above shows that apart from branch manager position which accounted for 20.8% and branch operations manager at 22.5%; the majority of the respondents were of other positions in the financial institutions accounting for 56.6%. This result was testament to the

fact branch manages and branch operations manager are few on the ground because for them they are engaged in executive activities while trans active activities are done by the majority whose titles were not listed but covered under others.

4.3.1.5: Duration in Institution

This section presents responses on Duration one has stayed in the Institution as seen in table 4.5 below.

Table 4.5: Duration in the Institution in years

	Frequency	Percent	Cumulative %
Valid 3 – 5	93	53.8	53.8
6 – 8	53	30.6	84.4
9 – 11	18	10.4	94.8
12 & above	9	5.2	100.0
Total	173	100.0	

Source: Primary Data

From the table 4.5 above, it can be seen that majority of the respondents (93 (53.8%)) said they have stayed in the Institution between 3-5 years, and followed by respondents that have stayed for 6-8 years (53(30.6%)), 9-11 accounted for (18(10.4%)) and 9(5.2%) were respondents that have stayed in the Financial Institutions for 21 & above years. This result shows that most of the respondents had information concerning the study variables and were able to give reliable data required by the researcher.

4.3.2 Profile of Financial Institutions

4.3.2.1 Number of employees in the Branch

This section covered the distribution of the responses in line with the number of employees of the financial institution as illustrated in the table 4.6 below.

Table 4. 6: Distribution of the responses based on the number of employees

	Frequency	Percent	Cumulative %
Valid 1 - 5	68	39.3	39.3
6 -10	37	21.4	60.7
11 – 15	26	15.0	75.7
16 – 20	17	9.8	85.5
21 & above	25	14.5	100.0
Total	173	100.0	

Source: Primary Data

From the above table, it can be seen that a higher percentage of the financial institutions were employing between 1-5(39.3%), and 6-10 (21.4%) and a few of the respondents were from financial institutions that employ between 16-20 individuals standing at 9.8%. This could be explained by the fact most financial institutions are start-ups in their earlier stage of business take-off in northern Uganda.

4.3.2,2: Number of Branches

This section covered the spread of the responses on numbers of branches each institutions has as presented in the table 4.7 below.

Table 4 .7: Number of branches of each Financial institutions in Northern Uganda

	Frequency	Percent	Cumulative %
Valid 1 - 5	110	63.6	63.6
6 -10	35	20.2	83.8
11 – 15	6	3.5	87.3
16 – 20	4	2.3	89.6
21 & above	18	10.4	100.0
Total	173	100.0	

Source: Primary Data

Table 4.7 above illustrates that 110 (63.6%) of the respondents confirmed that most financial institutions has between 1-5 branches institutions in northern Uganda, whereas 4(2.3%) had between 16 - 20 branches .

4.3.2.3: Category of Financial Institution

Table 4. 8: Category of Financial Institutions

	Frequency	Percent	Cumulative %
Commercial Bank	64	37.0	37.0
Micro-credit Institution	39	22.5	59.5
Forex Bureau	28	16.2	75.7
Money Remitter	11	6.4	82.1
MDI	31	17.9	100.0
Total	173	100.0	

Source: Primary Data

From the above table 4.8, it can be seen that a higher percentage of the financial institutions were the Commercial Banks standing at 64(37.0%) followed by micro credit institutions accounting for 39(22.5%), the last category operates as money remitter accounting for 11(6.4%).

4.4. Factor Analysis

In this study factor analysis was run to show the indices for the variables used. The practical purpose of factor analysis is to reduce a set of data so that it may easily be described and used. Also to ensure that the questions asked relate to the constructs the researcher intended to measure. The variables for which a factor analysis was computed are: Corporate Governance (CG), Operational Risk management (ORM) and Financial Performance (FP). The items relating to study variables were factor analyzed using principal component analysis with Varimax rotation and the results of which are shown below:

4.4.1 Corporate Governance

The factor analysis was run for three dimensions namely transparency, accountability and board composition as variables for measuring corporate governance. The factor analysis results for the corporate governance were as indicated in the table 4.8 below.

Table4.3: Summary of Factor Analysis on Corporate Governance

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.807		
Approx. Chi-Square	1627.939		
Bartlett's Test of Sphericity	df	190	
	Sig.	.000	
	Board Composition	Accountability	Transparency
The institution responds to audit queries raised by statutory bodies.			.546
The information that is disclosed by the institution is a reflection of its performance.			.554
The audited accounts of the institution are available for public access.			.767
All relevant information of the institution is available for access.			.596
The information provided to the public is complete.			.586
Dissemination of institution information is done in a timely manner.			.753
The institution provides regular progress reports about its performance to statutory bodies.			.677
The institution regularly under goes an audit process to verify its performance.		.613	
Management provides for tracking performances.		.756	
There are well set internal controls in the institution.		.802	
Internal audit is regularly carried out by the institution		.800	
The management of the institution is committed to the accountability process.		.754	
Management adheres to accountability procedures set by law.	.563		
There is stakeholder participation during accountability.	.585		
The board is composed of competent members.	.707		
During board formation, representation of all stakeholders is considered.	.751		
The integrity of board members is considered during board composition.	.729		
When appointing board member, there is gender balance.	.745		
During board composition, members' track record is considered.	.612		
The board co-opts members with expert knowledge and skills in particular fields.	.689		
Eigen Values	6.450	2.289	2.157
Variance %	32.250	11.446	10.786
Cumulative%	32.250	43.696	54.481
Extraction Method: Principal Component Analysis.			
Rotation Method: Varimax with Kaiser Normalization.			
a. Rotation converged in 5 iterations.			

From this analysis, variable board composition has the highest Eigen values (6.450) that explained 32 percent of the total variance. It is then followed by accountability with Eigen values of 2.289 accounting for 11.4% of the variance in corporate governance and finally, transparency shows Eigen values(2.157) accounting for 10.786 percent of the variances in corporate governance. Overall, Table 3.3 shows the analysis that yielded three components that explained 54.48 percent of the variance in corporate governance.

The results of the Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy show a score value of 0.807 with Bartlett's test of sphericity indicating a chi-square of 1627.939 at df 190 which was significant at 0.000. Based on KMO value being greater than

0.5 and Bartlett's test having a significant chi-square, the findings confirmed suitability of factor analysis as shown in Table 4.8.

4.4.2 Operational Risk Management (ORM)

To measure the items for Operational Risk Management (ORM), factor analysis was done using three dimensions namely people, process and system as variables for measuring operational risk management. The results of the factor analysis are shown in Table 4.9.

Table 4 4:Summary of Factor Analysis on Operational Risk Management

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.740			
Approx. Chi-Square	1203.690			
Bartlett's Test of Sphericity	df			
	105			
	Sig.			
	.000			
Variables and measurement items	System	IT	Process	People
Employees at the institution possess ethical behaviors.				.688
Employees comply with policy requirements of the institution.				.582
The institution has recorded cases of dishonesty among its employees.				.852
Institution exposure to people risk is increasing.				.606
The institution integrates risk management into planning at all levels.	.692			
The institution has an effective risk management system in place.	.762			
Having proper risk management processes in place improved our financial performance.	.764			
The institution has well designed operational manual.	.718			
The institution regularly carryout internal audit to ensure compliance with policies.	.790			
The institution experiences system disruptions which interrupts business.			.799	
Security measures are put in place to prevent unauthorized access to the institution.			.735	
Staffs are given regular training on IT security			.745	
The institution has suffered financial losses from IT related fraud.			.710	
Internal Audit Department regularly conducts system audit at the institution.			.736	
Eigen Values	4.808	2.511	1.645	
Variance %	32.050	16.738	10.968	
Cumulative%	32.050	48.788	59.756	
Extraction Method: Principal Component Analysis.				
Rotation Method: Varimax with Kaiser Normalization.				
a. Rotation converged in 6 iterations.				

The results of the factor analysis in table 4.9 shows that IT system has the highest Eigen values (4.808) accounting for 32 percent of the total variance in ORM. This is followed by process with eigen values of 2.511 that explained 16.7% of the variance in ORM and lastly, People having eigen values (1.645) accounting for 10.97 percent of the variances in ORM. Overall, the three components explained 59.76 percent of the variance in ORM.

The factor result of the Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy shows a score value of 0.740 with Bartlett’s test of sphericity indicating a chi-square of 1203.690 at df 105 which was significant at 0.000. Based on KMO value being greater than 0.5 and Bartlett’s test having a significant chi-square, the findings confirmed suitability of factor analysis as shown in Table 4.9.

4.4.3 Financial Performance (FP)

To measure the items for Financial Performance (FP) factor analysis was done using three dimensions namely People, Process and IT system as variables for measuring ORM. The results of the factor analysis are shown in Table 4.10. Table 4. 5: Summary of Factor Analysis of Financial Performance (FP).

Table 4.10: Summary of Factor Analysis of Financial Performance (FP)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.					.693
Bartlett's Test of Sphericity		Approx. Chi-Square			1105.877
		df			105
		Sig.			.000
Variables and measurement items	Operation Efficiency	Asset Quality	Capital Adequacy	Profitability	
Our profitability has improved as a result of our ORM system.			.697		
The institution has a positive growth rate.			.649		
The institution is making more returns on investments.			.709		
The ORM system enables the institution reduce the number of fraud cases.		.753			
The institution profitability has grown due to good corporate governance.		.705			
The institution maintains high degree of liquidity at all times.		.606			
The institution takes stock of its assets routinely.		.607			
The institution carries out internal audit yearly to improve operational efficiency.		.573			
The institution has adequate funds to lend to its clients.	.881				
The institution has sufficient staffs to carry out its operations.	.806				
The institution has sufficient capital in its reserve with BOU.	.880				
The institution is highly liquid to meet its customer demands.	.894				
The institution constantly reports its assets to BOU for monitoring.	.592				
The institutions assets is significantly exposed to risk.				.774	
The institution desires a lower efficiency.				.829	
Eigen Values	4.039	2.973	1.427	1.224	
Variance %	26.928	19.822	9.512	8.163	
Cumulative%	26.928	46.750	56.263	64.426	
Extraction Method: Principal Component Analysis.					
Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 7 iterations.					

Four indices identified from the measure of financial performance are profitability, capital adequacy, asset quality and operational efficiency. In this scale, operational efficiency has the highest Eigen values (4.039) accounting for 26.9% of the total variance in financial performance, assets quality has eigen values (2.973) standing at 19.8%; capital adequacy followed with eigen values (1.427) at 9.5% and profitability has eigen values (1.224) explaining 8% of the total variance in financial performance. Overall, the indices make up 64.4% of financial performance.

From the above table 4.10, it can be noted that the Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy has a score value of 0.693 with Bartlett’s test of sphericity indicating a chi-square of 1105.877 at df 105 which was significant at 0.000. Based on KMO value being greater

than 0.5 and Bartlett's test having a significant chi-square, the findings confirmed suitability of factor analysis the variable financial performance as indicated in table 4.10 above.

4.5 Correlation Analysis

This analysis was done to ascertain the relationship between corporate governance, operational risk management and financial performance based on the research objectives. Pearson's Correlation coefficient was used to determine the strength and direction relationships among the study variables. The results are presented in table 4.11 below.

Table 4. 11: Result of Pearson Correlation Analysis

	Corporate Governance	Operational Risk Management	Financial Performance
Corporate Governance	1.000		
Operational Risk Management	.563**	1.000	
Financial Performance	.498**	.478**	1.000
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary Data

The first objective of the study is to examine the relationship between corporate governance and financial performance of northern Uganda financial institutions. Results in Table 4.11 indicate a positive significant relationship between corporate governance and financial performance ($r = 0.498$, $P < 0.00$). This means that financial institutions may strengthened corporate governance practices to enhance financial performance among financial institutions; an indication that financial institutions that practice corporate governance issues such as transparency, accountability are likely to perform better than those that incorporate such practices in their operations.

The second objective is to establish the relationship between operational risk management and financial performance of Northern Uganda Financial Institutions. Results of the study in table

4.11 showed a significant positive relationship between operational risk management and financial performance of financial institutions ($r = 0.478$, $P < 0.00$). This result implies that a unit a change in operational risk management is associated with a change in financial performance.

4.6 Hierarchical Multiple Regression Analysis

Hierarchical multiple regression was performed using forward stepwise method. This multiple regression analysis was used because it analyzes the amount of variance explained in a dependent variable by more than one predictor variable. In this case, beginning to examine the ability of personality factors (Duration in the Institution, Level of Education, Position in the Financial Institution) to predict levels of Financial Performance of Northern Uganda financial institutions. Additionally, others factors were entered as predictors (Corporate Governance and Operational Risk Management) of Financial Performance. The results were presented in table 4.12 below.

Table 4.12: Hierarchical Regression Model of Financial Performance

Variable	Model 1		Model 2		Model 3	
	<i>Sβ</i>	<i>E</i>	<i>Sβ</i>	<i>E</i>	<i>Sβ</i>	<i>E</i>
Level of Education	-.009	.049	-.056	.044	-.032	.042
Position in the Financial Institution	-.191	.043	-.085	.039	-.138	.038
Duration in the Institution	.132	.039	.082	.035	.034	.092
Corporate Governance			.463	.066	.253	.079
Operational Risk Management					.332	.066
R		.273		.515		.580
R ²		.074		.265		.336
Adjusted R ²		.058		.247		.316
ΔR ²		.074		.191		.071
F Change		4.532		43.541		17.956
Sig. F Change		.004		.000		.000
N		173		173		173

Source: Primary data, 2020

Dependent variable: Financial Performance.

**Regression is significant at the 0.01 level.*

Model 1 captures the control variables of the hierarchical model of Financial Performance namely; Level of Education, Duration in the Institution and Position in the Financial Institution. Of these characteristics, Duration in the Institution had a significant positive effect on Financial Performance (beta = 0.132, $p \leq 0.01$). This implies that the more employees stay in the financial institutions, the more likely they will improve on Financial Performance.

Model 2 include Corporate Governance on top of demographic characteristics. Introduction of Corporate Governance into model 2 reduced the effect of duration in the institution to an insignificant level at 5% (beta = 0.082, $p \leq 0.01$). Further still, Corporate Governance also had a significant positive effect (beta = 0.463, $p \leq 0.01$) implying that when the Transparency, Accountability and Board Composition of the Financial Institutions are improved, it leads to an increase in the level of Financial Performance by the FIs. The results of Model 2 also showed that corporate governance raised the predictive power of Financial Performance by 19.1% (R Square Change = 0.191) and model 2 was significant (F change = 43.541, $p \leq 0.01$).

Model 3 involve the inclusion of Operational Risk Management which raised the predictive power of the Financial Performance by only 1% (R Square change = 0.071) however the model was significant (F change = 17.956, $p \leq 0.01$) at 5% level. Furthermore, Operational Risk Management was found to have a significant positive effect ($\beta = 0.332$, $p \leq 0.01$) implying that when the Financial performance of the Financial Institutions improves to satisfaction of the stakeholders, this is has a result of people, process and IT systems all working efficiently and effectively to increase the performance level of the FIs.

Therefore, from the model three out of five predictor variables were statistically significant, with corporate Governance recording a higher Beta value ($\beta = .463$, $p < .001$) than the Operational Risk Management ($\beta = .332$, $p < .001$) and duration in the Financial Institution ($\beta = .132$, $p < .01$).

Consequently, this also implies that at 5% level of significance, the Corporate Governance employed at every level success would improve Operational Risk Management of Financial Institutions. These means having a good corporate governance and operational risks management significantly enhance financial performance of Northern Uganda Financial Institutions.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The study sought to assess the effect of corporate governance, operational risk management on financial performance of northern Uganda financial institutions. This chapter presents the discussion, conclusions and recommendations arising from the study findings.

5.1 Discussion of Findings

5.1.1 Corporate Governance and Financial Performance

The results show that there exists significant relationship between corporate governance and financial performance (section 4.4.1). Thus, financial performance relies on how well corporate governance is laid down. This is a clear justification that banks that practice more of corporate governance issues such as transparency, accountability perform better than those that disclose less or are non-compliance to corporate governance issues. It is in line with Sanusi (2010) who contends that corporate governance in many banks failed because boards ignored these practices for reasons including being misled by executive management, participating themselves in obtaining un-secured loans at the expense of depositors and not having the qualifications to enforce good governance on bank management. Similarly, Soludo (2004) observed that weak corporate governance was seen manifesting in form of weak internal control systems, excessive risk taking, override of internal control measures, absence of or non-adherence to limits of authority, disregard for cannons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices remain a worrisome feature of the banking system.

On the other hand, it is noted that sound corporate governance in terms of stronger management oversight and better practices by the board of directors could affect excessive risk-taking and performance of financial institutions (Adams & Mehran, 2012). While Hagendorff & Vallascas

(2011) in their findings indicate that better governed firms are relatively more profitable, more valuable and pay more cash to their shareholders

5.1.2 Operational Risk Management and Financial Performance

The study findings revealed that there exists a high positive relationship between operational risk management and financial performance (section 4.4.2), which is in line with Nwite (2011) & Mwaipopo (2012) who noted that better operational risk management means better control and higher chance of success in financial performance. In support of the findings, Tanase & Serbu (2010) suggest that banks with the help of technological advancements have been able to manage operational risk by offering innovative products like e-banking, which has been able to reduce a lot of their operational risk exposure by minimizing the human intervention in their overall process thus impacting positively on the general performance of the banks. Operational risk management is also useful for firms operating in a dynamic and competitive environment as it can help them integrate operational initiatives within long-term strategic plans (Minton, Taillard, & Williamson, (2014); van Bekkum, 2015). On the other hand, Mugisha (2014) & Okello (2015) disclosed that most of the financial institutions inadequate access to reliable information knowledge plays a negative role in operational risk management this is majorly due to the institutions having recorded cases of dishonesty among its employees. This is also accelerated by fact that some employees at the institutions do not have the necessary skills to perform their tasks effectively. This negatively obstructs financial institutions financial performance in line with unfavorable tax system, unfair competition, complicated rules and regulations and punitive measures.

5.1.3 Corporate Governance, Operational Risk Management and Financial Performance

Both correlation and regression analysis examined the relationship between corporate governance, operational risk management and financial performance showed existence of a significant and positive relationship between the study variables (Section 4.4.3). The findings of this study are in line with Adams & Mehran (2012) who asserted that sound corporate governance in terms of stronger management oversight and better practices by the board of directors could affect excessive risk-taking and performance of financial institutions. In the context of financial institutions, corporate governance and operational risk management are important as they can help the firms manage their short-term problems in critical areas like costing, expenditure and cash flow, by providing information to support monitoring and control (Omondi, 2015). Efficiency of financial institutions is noted in performance measurements to help management to improve operations, market position, and competitive advantage (Lin, 2010; Moreno, & Pop, 2011; Abu-Alkheil *et al.* (2012).

5.2 Conclusion

5.2.1 Corporate Governance and Financial Performance

It can be concluded that there exists significant relationship between corporate governance and financial performance of northern Uganda financial institutions. Thus, financial performance relies on how well corporate governance is laid down. This is a clear justification that banks that practice more of corporate governance issues such as transparency, accountability perform better than those that disclose less or are non-compliance to corporate governance issues. Thus, sound corporate governance in terms of stronger management oversight and better practices by the board of directors could affect excessive risk-taking and performance of financial institutions.

The study contends that, lack of proper transparency and accountability has seen the business inability to prepare and present financial reports leading to poor financial decision, poor planning

among others, and thus makes it a significant issue for business success.

5.2.2 Operational Risk Management and Financial Performance

The study findings revealed that there exists a high positive relationship between operational risk management and financial performance. It is an indication that better operational risk management means better control and higher chance of success in financial performance. Operational risk management is also useful for firms operating in a dynamic and competitive environment as it can help them integrate operational initiatives within long-term strategic plans. The study also noted that most of the financial institutions inadequate access to reliable information knowledge plays a negative role in operational risk management. This is majorly due to the institutions having recorded cases of dishonesty among its employees. This is also accelerated by fact that some employees at the institutions do not have the necessary skills to perform their tasks effectively. This negatively obstructs financial institutions financial performance in line with unfavorable tax system, unfair competition, complicated rules and regulations and punitive measures.

5.2.3 Corporate Governance, Operational Risk Management and Financial Performance

The results show that there exists a significant and positive relationship between corporate governance, operational risk management and financial performance. In the context it was concluded that corporate governance and operational risk management are important as they can help the firms manage their short-term problems in critical areas like costing, expenditure and cash flow, by providing information to support monitoring and control. It was also noted that corporate governance and operational risk management help management to improve operations, market position, and competitive advantage of their activities in the industry.

5.3 Recommendations

Despite a fairly good corporate governance and operational risk management framework in place, this study made a couple of recommendations which is believed would help strengthen financial institutions management system and make them more competitive. To embrace the culture of corporate governance, emphasis needs to be channeled towards banking transparency, accountability and proper board composition to enhance a healthy financial working environment.

In order to have reliable corporate governance and operational risk management, management of financial institutions should embark on providing adequate information for proper accountability and higher chances of financial institutions success and favorable competition by employing skilled personnel who have the required competency to run financial activities of the institutions.

There is also need for implementation of timely release of financial reports by financial institutions to enable policy makers to regulate and take decisions to develop sound financial management for the financial institutions.

5.4 Limitations of the Study

- i. Unwillingness of respondents to fill the questionnaires. The researcher ensured there was consistency in contacting the respondents and made sure reminders were sent to them to fill the questionnaires.
- ii. The respondents had a negative view of not obtaining any direct benefit from the research results and were not willing to release any information. The researcher tried to convince the respondents to spare some little time to answer the questions.
- iii. Besides getting data from some of internet websites required membership registration yet the costs associated with such registration were significant. As a result of this,

accessibility to some electronic libraries to get journals was restricted. This limited the scope of secondary data needed for the study.

5.5 Areas for Future Research

A similar study could be conducted in other areas of Uganda.

Study can be carried in the area of staff competency and performance of financial institutions in Uganda.

This study used cross sectional approach so another study can be carried using longitudinal approach to examine the causal effect between the study variables in future studies.

For management to control risk at the bank, there should be effective monitoring and evaluation of bank transactions whether manual and or electronic. These calls for system forensic experts who are task to double check other staff operations on systems, procedures and processes.

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APPENDIX I

QUESTIONNAIRE

Dear Respondent,

I am a student undertaking a research study on **Corporate Governance, Operational Risk Management and Financial Performance of Financial Institutions in Northern Uganda** as an academic requirement in partial fulfillment of the requirements for the award of Master of Business Administration of Makerere University.

The information provided will be treated as confidential and would be used for research purpose only.

SECTION I: GENERAL INFORMATION

(A) Demographic Characteristics of Respondents

Please tick (✓) the appropriate box for the statements/questions below:

1. Gender: Male ☐ Female ☐

2. Age group

18-30	31-39	40-49	50 & above
☐	☐	☐	☐

3. Level of Education

Certificate	Diploma	Bachelor's Degree	Master's Degree	PhD
☐	☐	☐	☐	☐

4. Position in the financial institution.

Branch manager	Branch operations manager	Others
☐	☐	☐

5. Duration in the Institution in years.

3 - 5	6 - 8	9 - 11	12 & above
☐	☐	☐	☐

7. Number of employees in your branch.

1 - 5	6 -10	11 - 15	16 - 20	21 & above
☐	☐	☐	☐	☐

(B) Demographic Characteristics / Profile of Financial Institutions

8. How many branches does your institution have in Northern Uganda?

1-5	6-10	11-15	16-20	21 & above

9. When did the Institution start operating?

--

10. Which category is this financial institution?

Commercial Bank	
Micro-credit Institution	
Forex Bureau	
Money Remitter	
MDI(Money Deposit Institution)	
Credit Reference Bureau	

SECTION II: CORPORATE GOVERNANCE

Please indicate the extent of your agreement with statements listed below ranging from 5- strongly agrees (SA), 4- agree (A), 3 not certain (NS), 2 disagree (D), 1- strongly disagree (SD).

Strongly agree		Agree	Not Sure	Disagree	Strongly Disagree				
5		4	3	2	1				
	Transparency								
1	The institution responds to audit queries raised by statutory bodies.				5	4	3	2	1
2	The information that is disclosed by the institution is a reflection of its performance.				5	4	3	2	1
3	The audited accounts of the institution are available for public access.				5	4	3	2	1
4	All relevant information of the institution is available for access.				5	4	3	2	1
5	The information provided to the public is complete.				5	4	3	2	1
6	Dissemination of institution information is done in a timely manner.				5	4	3	2	1
7	The institution provides regular progress reports about its performance to statutory bodies.				5	4	3	2	1
	Accountability								
1	Management provides for tracking performances.				5	4	3	2	1
2	There are well set internal controls in the institution.				5	4	3	2	1
3	Internal audit is regularly carried out by the institution.				5	4	3	2	1
4	The management of the institution is committed to the accountability process.				5	4	3	2	1
5	The institution regularly under goes an audit process to verify its performance.				5	4	3	2	1
	Board Composition								
1	The board is composed of competent members.				5	4	3	2	1
2	During board formation, representation of all stakeholders is considered.				5	4	3	2	1
3	The integrity of board members is considered during board composition.				5	4	3	2	1
4	When appointing board member, there is gender balance.				5	4	3	2	1
5	During board composition, members’ track record is considered.				5	4	3	2	1
6	The board co-opts members with expert knowledge and skills in particular fields.				5	4	3	2	1
7	Management adheres to accountability procedures set by law				5	4	3	2	1
8	There is stakeholder participation during accountability.				5	4	3	2	1

SECTION III: OPERATIONAL RISK MANAGEMENT

Please tick (✓) the extent to which you agree with the following statements/questions below:

Strongly agree	Agree	Not Sure	Disagree	Strongly Disagree				
5	4	3	2	1				
	People			5	4	3	2	1
1	Employees at the institution possess ethical behaviors.			5	4	3	2	1
2	Employees comply with policy requirements of the institution.			5	4	3	2	1
3	The institution has recorded cases of dishonesty among its employees.			5	4	3	2	1
4	Institution exposure to people risk is increasing.			5	4	3	2	1
Process								
1	Security measures are put in place to prevent unauthorized access to the institution.			5	4	3	2	1
2	Staffs are given regular training on IT security.			5	4	3	2	1
3	The institution has suffered financial losses from IT related fraud.			5	4	3	2	1

4	Internal Audit Department regularly conducts system audit at the institution.	5	4	3	2	1
IT System						
1	The institution experiences system disruptions which interrupts business.	5	4	3	2	1
2	The institution has an effective risk management system in place.	5	4	3	2	1
3	Having proper risk management processes in place improved our financial performance.	5	4	3	2	1
4	The institution has well designed operational manual.	5	4	3	2	1
5	The institution regularly carryout internal audit to ensure compliance with policies.					
6	The institution integrates risk management into planning at all levels.	5	4	3	2	1

SECTION IV: FINANCIAL PERFORMANCE

Please tick (✓) the extent to which you agree with the following statements/questions below:

Strongly agree		Agree	Not Sure	Disagree	Strongly Disagree					
5		4	3	2	1					
	Profitability									
1	The institution desires a lower efficiency.					5	4	3	2	1
2	The institutions assets are significantly exposed to risk.					5	4	3	2	1
Capital adequacy										
1	The institution has a positive growth rate.					5	4	3	2	1
2	The institution is making more returns on investments.					5	4	3	2	1
3	Our profitability has improved as a result of our ORM system					5	4	3	2	1
Asset Quality										
1	The institution maintains high degree of liquidity at all times.					5	4	3	2	1
2	The institution takes stock of its assets routinely.					5	4	3	2	1
3	The institution carries out internal audit yearly to improve operational efficiency.					5	4	3	2	1
4	The ORM system enables the institution reduce the number of fraud cases.					5	4	3	2	1
5	The institution profitability has grown due to good corporate governance.					5	4	3	2	1
Operational Efficiency										
1	The institution has adequate funds to lend to its clients.					5	4	3	2	1
2	The institution has sufficient staffs to carry out its operations.					5	4	3	2	1
3	The institution has sufficient capital in its reserve with BOU.					5	4	3	2	1
4	The institution is highly liquid to meet its customer demands.					5	4	3	2	1
5	The institution constantly reports its assets to BOU for monitoring.					5	4	3	2	1

Thank you for your Time and Cooperation.

Appendix IV: Table for Determining Sample Size from a Given Population

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note.—*N* is population size. *S* is sample size.