Internal Corporate Governance Mechanism and Firm Financial Performance: A Case of Listed Commercial Banks at The Uganda Securities Exchange

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The study empirically examined the effect of internal corporate governance mechanism on the financial performance of listed commercial banks at the Uganda Securities Exchange. In particular, the study sought to: (1) establish the effect of board of directors on the financial performance of listed commercial banks at the Uganda Securities Exchange; (2) assess the information of audit committee on the financial performance of listed commercial banks at the Uganda Securities Exchange; and (3) examine the effect of ownership structure on the financial performance of the listed commercial bank at the Uganda Securities Exchange. The study employed ex-post facto research design using a combination of cross-sectional and time series data. Through the quantitative approach, the study examined balance panel data of five listed commercial banks at the Uganda Securities Exchange for a period of seven financial years (2012-2018). The study used mainly secondary data relating to corporate governance variables, firm financial and market performance that was collected manually from the annual reports of listed commercial banks. Primary data rating to internal corporate governance mechanisms and financial performance was also collected through interviews in order to supplement the secondary data. Analysis was done inform of descriptive statistics, correlations and regressions using STATA 14. The study found firstly and foremost that the board of directors does not significantly affect the financial performance of listed commercial banks at the USE as measured by return on equity (ROE) and Tobin's Q (-ratio). Secondly and on the basis of the statistical results of the second hypothesis, the study found that the audit committee does not significantly affect the financial performance of listed commercial banks at the USE as measured by ROE and the Q-ratio. The study recommends the strengthening of the board of directors and the audit committees of the listed commercial banks so as to ensure that they provide adequate and sufficient time to pressing and current issues rating to their banks. In addition, government and policy makers should create an environment that encourages balanced investment for all the investors of especially the local banks irrespective of their nationality so that the ownership of these banks does not only grow among a few individual investors and companies but rather spread out reasonably to diversify and attract skills and companies to improve their financial performance. Moreover, the regulatory bodies like the capital markets authority (CMA) should mandate the corporate governance regulations in Uganda to further improve the financial performance of listed commercial banks.