Impact of Corporate Governance on Banks Financial Performance

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Abstract: This study examines the impact of corporate governance on the financial performance of financial institutions in London city with emphasis on board role and composition, transparency and disclosure, audit and compliance and the risk management as indicators of corporate governance and profitability, liquidity and loan portfolio taken as proxies for financial performance. A sample of 20 financial institutions was selected and from each selected, 10 respondents were selected giving a total sample size of 200. The Principal Component Analysis (PCA), with inbuilt ability to check for composite reliability, was used to obtain composite indices for governance indicators as well as the indicators of financial performance, based on the set of questions framed for each of them. Multiple regressions by means of the Taylor Linear estimation was used to examine the impact of various corporate governance indicators on financial performance and the results revealed that all indicators of corporate governance positively influence the financial performance of financial institutions. However, whereas the effect of auditing and compliance, transparency, disclosure and risk management were found to be significant in their influence on financial performance, board role and composition turns out to be insignificant. As such, policy prescriptions are proposed towards redefining the role of board members while enforcing accountability and transparency.

Keywords: Corporate governance, financial performance, Principal Component Analysis, Financial institutions.

INTRODUCTION

The wave of corporate scandals which swept across renowned companies in Europe and the USA (e.g. Societe General, the LEHMAN BROTHERS etc.), have raised questions as to what composition of the board can best monitor and control the activities of management in an organization. The management of these companies was involved in dubious, questionable and fraudulent accounting practices and their boards could not detect them on time. Fraud, mismanagement and poor monitoring of agents' activities resulted to lack of transparency and accountability making these top companies vulnerable to failures. This led to the creation of regulatory corporate governance reports and codes; these were introduced to set regulations that could ensure effective governance and to improve on the financial performance of these firms. Wilson (2006) noted that poor corporate governance can lead market to lose confidence in the inability of a bank to properly manage it assets and liability, including deposits which could in turn trigger a bank liquidity crisis. The strength of the corporate governance mechanism in a financial establishment determines the system's vulnerability to uncertainties and eventual risks; the reason why some institutions fail, and others succeed. However, Drobetz et al. (2003)'s study shows that good corporate governance lead to increased valuation, higher profit, higher sales growth and lower capital expenditure.

The basic building blocks of corporate governance structures include, Directors, Accountability and Audit, Directors' Remuneration, Shareholders and the AGM. Cadbury (1992), Greenbury (1995) and Hampel (1998) identified the need for greater transparency and accountability in areas such as board structure and operation, directors' contracts and the establishment of board monitoring committees. In addition, they all stressed the importance of the non-executive directors' monitoring role. Despite several research on corporate governance and its impact of financial performance, limited analysis if any has been conducted to assess the significance of transparency and disclosure.

RESEARCH OBJECTIVES

The main objective of this study is to determine the effect of corporate governance on the financial performance of financial institutions. Specifically, it seeks to:

i. Assess the effect of board role and composition on the financial performance of financial institutions in London.
ii. Examine the role of transparency and disclosure on the financial performance of financial institutions.
iii. Evaluate the effect of auditing and compliance, and risk management on the financial performance of financial institutions.

Research Hypotheses:

This study seeks to test the null hypotheses that:

i. H_1: Board role and composition have no effect on the financial performance of financial institutions in London.
ii. H_2: Transparency and disclosure do not affect the financial performance of financial institutions.
iii. H_3: Auditing and compliance have no effect on the financial performance of financial institutions.
iv. H_4: Risk management has no effect on the financial performance of financial institutions.

REVIEW OF THE LITERATURE

Governance in banking dramatically changed in the 1990s because of significant changes of ownership which emanated from mergers and acquisitions (Arouri et al.,

2011). The recent financial crisis that affected most of the developed countries originated from America before spreading to other countries. This was because of the financial interconnectivities of financial institutions. The chief cause of the subprime mortgages that lead to the financial crisis was because of excessive risk taking. Excessive risk-taking hinges on agency problem. Agency theory posits that a large board can be less efficient than a small board due to a rise in agency conflicts because of inefficient communication and cooperation costs (Jensen, 1993). However, Pfeffer (1972) noted that board size is positively linked to the performance of large firms. This is because large firms have a greater need of more board members who may bring different experience and expertise especially when the board is well diversified.

Pathan and Faff (2013) study the impact of the board size on the performance of US BHCs for the 1997-2011 period. The study indicated a negative relationship between the board size and performance as estimated by Tobin's Q, return on assets (ROA), return on equity (ROE) and pre-tax operating income (POI) ratios. On the contrary, when Adams and Mehran (2012) analysed 35 BHCs over the 1965-1999 periods, they concluded that board size is positively related to bank performance as estimated by Tobin's Q and ROA ratio.

A diversified board requires both executive and non-executive directors. (Busta, 2007) analysed the influence of non-executive directors in decision making process. The results indicated that there is a positive association between non-executive directors and performance, in terms of return on invested capital and market-to-book values, for a sample of European banks. Moreover, Tanna et al. (2011) examine the impact of the board independence on the performance, as estimated by various efficiency measures, of seventeen banking institutions in the UK. They conclude that there exists a positive and significant relationship between board independence and bank efficiency over the period 2001-2006. On the contrary, according to the 'stewardship' theory (Donaldson, 1990) there is no conflict between the interests of shareholders and managers.

A wider study by Tandelilin et al. (2007) examined the correlation among corporate governance, risk management and bank performance using a sample of 51 Indonesian banks for the period 1999 – 2004. This study revealed that bank ownership affects both the relationship of corporate governance and bank performance and corporate governance and risk management.

RESEARCH DESIGN

The study adopted the cross-sectional survey research design. This design is exploratory on the one hand and causal on the other because it examines the relationships amongst variables and the effects of the corporate governance indicators on financial performance.

Principally, primary source of data was used with well structured questionnaires as the research instrument administered to the respondents. These respondents were made up of board members, committee members, staff and enlightened members of the financial institutions. Though not a time series study, some secondary data was collected from the annual reports of the financial institutions on the indicators of performance.

The study population comprised of 20 financial institutions which were selected using the purposive sampling techniques in London city which are registered under the Ministry of Finance. From the financial institutions selected, a total of 10 respondents involving management (board and staff) and members were sampled making a total sample size of 10 x 20 = 200.

Model Specification:
The model used for this study is a non-linear function relating performance to the different indicators of corporate governance under study. These indicators include: Board role and composition (BRC), transparency and disclosure (TD), auditing and compliance (AC) and risk (R). Financial performance as the main dependent variable is denoted by (FP) with indicators being Profitability (P), Loan Portfolio (LP) and Liquidity (L).

a)   *Profitability and Governance Equation:*
$P = f(A^{\alpha 0}, BRC^{\alpha 1}, TD^{\alpha 2}, AC^{\alpha 3}, R^{\alpha 4}, e^{\mu})$ linearized as:
$Prof_i = \alpha_0 + \alpha_1 lnBRC_i + \alpha_2 lnTD_i + \alpha_3 lnAC_i + \alpha_4 lnR_i + \mu$ (1)

b)   *Loan Portfolio and Governance Equation:*
$LP = f(A^{\beta 0}, BRC^{\beta 1}, TD^{\beta 2}, AC^{\beta 3}, R^{\beta 4}, e^{\mu})$.
$LP_i = \beta_0 + \beta_1 lnBRC_i + \beta_2 lnTD_i + \beta_3 lnAC_i + \beta_4 lnR_i + e$ (2)

c)   *Liquidity and Governance Equation:*
$L = f(A^{\lambda 0}, BRC^{\lambda 1}, TD^{\lambda 2}, AC^{\lambda 3}, R^{\lambda 4}, e^{\mu})$
$L_i = \lambda_0 + \lambda_1 lnBRC_i + \lambda_2 lnTD_i + \lambda_3 lnAC_i + \lambda_4 lnR_i + \psi$ (3)

These three functions have been summarized in one function showing the effect of Corporate Governance on Financial Performance in the following Governance-Financial Performance function.

$$FP = f(A^{\pi 0}, BRC^{\pi 1}, TD^{\pi 2}, AC^{\pi 3}, R^{\pi 4}, e^{\mu})$$

The Taylor Linear structure of this function is quantitatively presented as;

$$FP_i = \pi_0 + \pi_1 lnBRC_i + \pi_2 lnTD_i + \pi_3 lnAC_i + \pi_4 lnR_i + \varepsilon (4)$$

Note that α_i, β_i, λ_i and π_i are the coefficients of parameter estimates i = 1, 2, 3, 4; that is, Board role and composition, transparency and disclosure, auditing and compliance and risk management in equations (1) to (4). A priori, it is expected that all the parameter estimates should not be zero.

Robustness:
Based on the data, the reliability of the data used for this study was tested using the Alpha Cronbach's Value. This shows that it is worth relying on this data for analysis and recommendations. Other tests to be conducted at this level are aimed at testing for econometric diseases including; autocorrelation, multicollinearity and heteroscedasticity. Auto correlation shows the relationship between the error terms. Multicollinearity shows the relationship between independent variables while heteroscedasticity tests for constant variance. This means that if there is a constant variance, then there is no heteroscedasticity. The Durbin

Watson test was used to test for autocorrelation, the Correlation Matrix was used to test for multicollinearity while the Breusch Godfrey-Pegan test was used to test for heteroscedasticity as mentioned above.

PAIR-WISE CORRELATION RESULTS OF RETAINED VARIABLES

The relationship that exists amongst the different indicators of this study is fundamental in explaining the impact of one concept to the other. It is worth reiterating here that the four indicators of corporate governance and the three indicators of financial performance used for this study. These retained questions are those that explain the different components of both corporate governance and financial performance. These results are presented following the PCA rankings of the components of corporate governance and financial performance as shown in table 1 below;

Table 1: Pair-Wise Correlation (Risk Management and Transparency and Disclosure)

Variable	RSPE	RLPB	RDCC	RLRF	RBI	TDPI	TIDP
RSPE	1.0000						
RLPB	0.6187	1.0000					
RDCC	0.6331	0.5856	1.0000				
RLRF	0.6441	0.6568	0.6783	1.0000			
RBI	0.6731	0.5512	0.6384	0.5278	1.0000		
TDPI	.05185	0.4594	0.4630	0.4183	0.4866	1.0000	
TIDP	0.5614	0.5231	0.5073	0.4906	0.5404	0.6886	1.0000

*(**RSPE:** Regular staff performance evaluation, **RLPB:** Risk management, **RDCC:** Regular Defined Cash Ceiling **RLRF:** Loan recovery task force, **RBI:** inter-bank reconciliation, **TDPI:** Transparency and declaration of personal interest, **TIDP:** Transparency and information disclosure policy)*

The results in table 1 above indicate that the retained variables for risk management relate with each other and with some transparency and disclosure variables. The strong positive relationship between RSPE and RDCC (0.6331) implies that if staff is evaluated regularly and present credible guarantors in their files, then the risk of poor cash management and unauthorized withdrawals by cheque will reduce greatly, thus improving on cash management. Equally, if the staff are trained and evaluated regularly

(RSPE), inter branch reconciliation will be optimized (RBI), thus minimizing fraud and errors that may arise. This explains the strong positive relationship between RSPE and RBI. The explanation goes same for all the values presented amongst the different relationships in the table 1 above. This strong positive relationship is an indication that risk management is a fundamental indicator of corporate governance that influences financial performance.

Table 2: Pair-Wise Correlation (Transparency and Disclosure, Auditing and Compliance and Board Role and Composition)

Variable	TMUR	TAAP	AABC	AMR	AIEB	BIR	BMG
TMUR	1.0000						
TAAP	0.5319	1.0000					
AABC	0.2400	0.2731	1.0000				
AMR	0.5650	0.5345	0.1582	1.0000			
AIEB	0.5077	0.5121	0.2352	0.6620	1.0000		
BIR	0.1925	0.0917	0.0678	0.1795	0.1571	1.0000	
BMG	0.3171	0.3863	0.2102	0.3368	0.3459	0.1628	1.0000

*(**TMUR:** Timely up to date report, **TAAP:** Asset acquisition procedures, **AABC:** Audit on activities of board and committee, **AMR:** Audit monthly report, **AIEB:** Auditing, internal and external by-laws, **BIR:** Board interpretation of reports, **BMG:** Board mastery of guidelines)*

Table 2 presents the relationships that exist amongst the variables of the three different components cited above. It is worth noting that following PCA components rankings, the strength of the relationship decreases as we move from one component to the other. The strength of the relationship for instance has dropped as we move from risk management to transparency and disclosure. The relationship between TMUR and TAAP is a strong positive relationship (0.5319) implying that regular reporting is required (TMUR) for the members to closely monitor the procedure and quality of assets acquired (TAAP). There is also a strong positive relationship (0.5650) between the regular presentation of financial reports (TMUR) and the ability to interpret these reports by the auditors (AMR), otherwise these reports will not make any useful contributions to the union's

performance. According to the results, reporting (TMUR) is worthless if there is no regular monitoring by the auditors to compare reports with actual results from the field. This explains the strong positive relationship (0.5077) between (TMUR) and (AIEB). Moreover, the presentation of monthly reports and regular monitoring by the auditors (AMR and AIEB) are strongly correlated (0.5345 and 0.5121 respectively) to the evaluation of the value and quality of assets acquired (TAAP). This implies that without regular monitoring and reporting, poor quality assets could be acquired at exorbitant prices with the aim of meeting self-interests. Above all, regular monitoring (AMR) without regular reporting is worthless. This is confirmed by the strong positive relationship that links monitoring with reporting (0.6620).

Table 3: Pair-Wise Correlation (Board Role and Composition)

Variable	BCSF	BMR	BEMS
BCSF	1.0000		
BMR	0.5583	1.0000	
BEMS	0.571	0.5065	1.0000

*(**BCSF**: Board committee, and staff functions, **BMR:** Board mastery of reports, **BEMS:** Board evaluation of management staff)*

The table reveals that there exists a strong positive relationship between separation of functions (BCSF) and board mastery of reports and staff evaluation (BMR and BEMS). Staff evaluation can easily be captured from the report of activities carried out by the staff. This conforms to the strong positive relationship between BMR and BEMS.

Techniques of Estimation:

This study will make use of the OLS Technique of estimation. The effect of corporate governance on the financial performance of financial institutions in London will be captured by examining the effects of the various indicators of corporate governance on the dependent variable.

The Principal Component Analysis (PCA) will then be conducted on these questions to examine which questions better captures the various indicators. PCA is a variable reduction procedure. It is used when we obtain data from a large number of variables (questions) and believe that there is redundancy in the variables (questions). Redundancy means that some of the variables are correlated with one another possibly because they are measuring the same construct. In performing a PCA, scores will be calculated for each subject or indicator. The scores gotten from the questions will then be weighted optimally and summed to compute the scores on a given component or variable. The PCA has steps to follow:

- The first step has to do with the extraction of the components to be used for interpretation;
- The second determines the number of meaningful components (questions) to retain for interpretation. Four criteria are used to make this decision: the engine value-

one criterion, the screen test, the proportion of variance accounted for and the interpretability criterion.
- The third step has to do with rotation to a final solution.
- Step four has to do with interpreting the rotated solution.
- In step five, factor score or factor-based scores are created and
- Step six summarizes the results in table form. For this method to work well, the number of questions per indicator must be three and above and the sample size in terms of number of respondents must be above 100.

Haven obtained composite values for each indicator of corporate governance and financial performance; a multiple regression will be run for the different indicators of corporate governance and financial performance as stated above. The Taylor's Linearised Estimation technique which is an advanced technique of the OLS will be adopted. This technique is adopted because it takes into consideration the survey structure of the study and makes a linear transformation of the standard errors of each estimate as it imposes a linear structure on specified models.

The Principal component Analysis (PCA) results:

The Principal Component Analysis (PCA) results indicate that seven (7) components can be retained for analysis in this study because they all have eigen values greater than one and also account for more than 70% of the total variance. However, the first four components meet the desire of this study as they capture most of the total variance and include the fundamental measures under consideration. The four components and their respective eigen values and proportion of the total variance they account for are summarized on the table 4 below.

Table 4: Retained Components for Governance Indicators and their Eigen values

Component	Eigenvalue	Proportion (%)	Cumulative Proportion (%)
Component 1	11.866	44.66	44.66
Component 2	3.64383	19.11	63.77
Component 3	2.07533	8.69	72.46
Component 4	2.30297	3.26	75.72

Table 4 above shows that component 1 accounts for 44.66% of the total variance, component 2 accounts for 19.11%, component 3 accounts for 8.69% and component4 accounts for about 3.67% of the total variance. However, the four retained components jointly account for 75.72% showing that more than three-quarters of the variation in governance indicators in financial institutions in London is captured by these four components.

At the same time, the variables that load more on each of these components as shown by their eigenvectors are hierarchically arranged on table 5. On the table, RSPE, RLPB, RDCC, RLRF and RBI are the elements of component 1 that cause its high variance accounted for by the component. At the same time, these variables are similar in that they all measure risk management in financial institutions.

Table 5: Loadings (Eigenvectors) of Retained Components of Governance Measures

Component 1		Component 2		Component 3		Component 4	
Variable	Eigen Vector	Variable	Eigen-vector	Variable	Eigen-vector	Variable	Eigen-vector
RSPE	0.5908	TDPI	-0.5220	AABC	0.4876	BIR	0.5125
RLPB	0.5828	TIDP	-0.4209	AMR	-0.4135	BMG	0.4944
RDCC	0.5822	TMUR	-0.4331	AIEB	-0.3667	BCSF	0.4821
RLRF	0.5821	TAAP	-0.4946	-	-	BMR	0.4179
RBI	0.4709	-	-	-	-	BEMS	0.3959

(RSPE: Regular staff performance evaluation, RLPB: Risk management , RDCC: Regular Defined Cash Ceiling, RLRF: Loan recovery task force, RBI: inter-bank reconciliation, TDPI: Transparency and declaration of personal interest, TIDP: Transparency and information disclosure policy, TMUR: Timely up to date report, TAAP: Asset acquisition procedures, AABC: Audit on activities of board and committee, AMR: Audit monthly report, AIEB: Auditing internal and external by-laws, BIR: Board interpretation of reports, BMG: Board mastery of guidelines, BCSF: Board committee, and staff functions, BMR: Board mastery of reports, BEMS: Board evaluation of management staff)

This implies that the composite index for risk management in this study will be denoted by component 1. Meanwhile, the tendency for board members, staff and committees to declare their interests (TDPI), information disclosure (TIDP), availability of monthly reports (TMUR) and procedures that evaluate the quality and value of assets (TAAP) load more on component 2 and they are all measures of transparency and disclosure of information in credit unions in London. On their part, the non-interference of the board in the presentation of audit reports (AABC), the actual monthly presentation of audit accounts (AMR) and the plan of auditing (AIEB) are on their part elements of auditing and compliance that load heavily in component 3. On the other hand, the ability of board and committee members to interpret reports (BIR), mastery of guidelines of supervising management activities (BMG), functions clarity and non-interference of board (BCSF), the availability of reports priori to board meetings (BMR) and the existence of

performance evaluation for staff and management succession (BEMS) identify themselves as elements of board role and composition exerting a heavy load on component 4. Thus, whereas component 1 denotes risk management, components 2, 3 and 4 measure transparency and disclosure, auditing and compliance and board role and composition respectively.

PCA on Performance:

As indicated earlier, the number of components retained for subsequent analysis is subject to attaining Kaiser Criterion that only components with eigen value greater than 1 are retained. The PCA results show that up to five components are capable of being retained. However, the first three components have high eigen values and capture more variables of interest than the last two. As such, only the first three components are extracted with the relative proportion of variance accounted for displayed on table 6 below.

Table 6: Retained Components for Performance measures and their Eigenvalues

Component	Eigen value	Proportion (%)	Cumulative Proportion (%)
Component 1	10.1835	43.95	43.95
Component 2	3.31141	19.93	63.88
Component 3	2.07879	9.370	73.25

The eigenvalues indicate that component 1 accounts for 43.95% of the total variation in performance of financial institutions, component 2 accounts for 19.93% while component 3 accounts for 9.37% of that variation.

Cumulatively, these three components jointly account for 73.25% of the variation in the performance of financial institutions in London.

Table 7: Loadings (Eigenvectors) of Retained Components of Performance Measures

Component 1		Component 2		Component 3	
Variable	Eigenvector	Variable	Eigenvector	Variable	Eigenvector
LPCR	0.4688	LDAD	0.4564	PICR	0.4433
LPFC	0.4187	LRAD	0.3929	PMSO	-0.4386
LPLP	0.4138	LMDP	0.3918	PRSM	-0.4331
LPLR	0.4022	LUIA	-0.3007	PCSF	0.3803
LPDL	0.3978	-	-	PDOI	-0.3287
LPLD	0.3945	-	-	-	-
LPWO	0.3268	-	-	-	-

(LPCR: Loan portfolio, interest collection rate, LPFC: Loan portfolio, fake collateral,
LPLP: Loan portfolio, quality of loan policy, LPLR: Loan portfolio, low cost of loan recovery, LPDL: Loan portfolio, delinquency of loan, LPWO: Loan portfolio, written-off LDAD: Liquidity, demand deposits)

As observed from the table above, all elements of each of the components have something in common. All the measures or elements retained in component 1 all measure loan portfolios within financial institutions, all elements of component 2 are measures of liquidity while measures of component 3 are measures of profitability. Interestingly, therefore, the eigen values for each of the components reveal that the variability in the performance of financial institutions is determined in order of merit (as indicated by

eigen values) by the loan portfolio policy, liquidity policy and the profitability aims of the institutions.

Going by their eigen vectors, it can be observed that the interest collection rates (LPCR), non-existence of fake collateral documents in union loan files (LPFC), an up-to-date loan policy for recovery of bad debts (LPLP), the low cost of loan recovery for credit unions (LPLR), low rate of loan delinquency (LPDL), decreasing rate of loan

delinquency (LPLD) and the writing off of loans above a year old (LPWO) exert much influence on loan portfolio management index; the availability of deposits on demand (LDAD), bank reserve availability (LRAD), ease of meeting cash demands (LMDP) and the existence of an investment account for saving excess liquidity (LUIA) are the major determinants of liquidity preferences in credit unions while prompt payment of interest (PICR), meeting social obligations (PMSO), meeting reserve requirement is as a result of profitability (PRSM), cheap sources of funding relative to interest generated (PCSF) and the increasing rate of dividends paid (PDOI) are the major factors accounting for the variability in the profitability of financial institutions in London.

Table 8: The results of the Multiple Regression results are presented in the table below

	Loan Portfolio	Liquidity	Profitability	Financial Performance
	Coefficient (LSE)	Coefficient (LSE)	Coefficient (LSE)	Coefficient (LSE)
BRC	0.4592549 *** (0.1731092)	0.0799302 (0.1351124)	0.4112378*** (0.1272785)	0.0426491 (0.0826732)
TD	0.1916813 *** (0.0742617)	1.254126*** (0.1265916)	0.1410135 (0.1010107)	0.4011528*** (0.0836129)
AC	0.2077687 * (0.1083158)	0.5841879*** (0.1113813)	0.0852712 (0.1046868)	0.2355619*** (0.0733349)
RM	1.73877*** (0.04978)	0.0347036 (0.0331904)	0.0439119* (0.0223502)	0.5826594 *** (0.0216592)
_CONS	-0.1574814 (0.2097328)	-0.0452987 (.1484018)	0.060224 (0.1301843)	-0.0475187 (0.0976806)
R-squared	0.7894	0.3003	0.5506	0.6707
Adjusted R-squared	0.7868	0.2917	0.5451	0.6666
F(4, 326)	316.40	29.32	14.11	187.70
Prob> F	0.0000	0.0000	0.0009	0.0000

Overall, board role and composition, transparency and disclosure, auditing and compliance as well as risk management within financial institutions in Londoner governance indicators that significantly influence the financial performance of the financial institutions as indicated by their test statistical values, magnitude and signs. Therefore we reject the stated null hypotheses except for the role and composition of board members which is insignificant.

The regression results on column five of table 8 above show that transparency and disclosure has a positive and significant effect on the financial performance of financial institutions in London. In fact, as the level of transparency and disclosure in the managerial affairs of credit unions increases, the financial performance of financial institutions through loan portfolio, liquidity and profitability increases by 0.4 with such effect being statistically relevant at 1%.

Similar implications can be drawn from the sign and magnitude of the coefficient of auditing and compliance. Its magnitude and sign show that as the level of auditing of accounts in financial institutions and compliance with banking regulations increases, the financial performance of these institutions has the propensity of increasing by 0.085. This effect is found to be statistically significant at 1% level of significance, is in line with backing a priori expectations. On its part, the coefficient of risk management is positive and significant at 1%. Precisely, as the level of risk mitigation and management increases amongst financial institutions, there is a tendency for financial performance to significantly increase by 0.58 the effect of which is significant at 1% level of significance, through the effect on loan portfolio, liquidity decisions and profitability.

The results on column five of table 8 further indicate that the joint variation in board role and composition, transparency and disclosure of accounts, auditing and compliance with banking regulations and risk management account for approximately 67% of the total variation in the performance of financial institutions in London city. Approximately 33% of the overall financial performance of these financial institutions is, therefore, accounted for by the error term that is, other factors not modelled in the financial performance model such as membership and other specific characteristics of the financial institutions. This assertion and the prescriptive power of the effect of this joint is ascertained plausible by the significance level of the Fisher F-ratio whose probability shows a 99% confidence in predictions made based on such results.

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Appendixes

QUESTIONNAIRE

Section A: General Information

1) Position in the financial institution: a) Member ☐ b) Committee ☐   c) Board ☐ d) Staff ☐

2) Sex: a) Male ☐ b) Femalec) ☐   Others ☐

3) Age:a) 20 – 25 ☐ b) 26 – 31 ☐   c) 32 – 37 ☐   d) 38 – 43 ☐   e) 44 – 50 ☐   f) 50+ ☐

Section B: Corporate Governance Issues

Instructions: Each question has five options and you are expected to mark a tick (✓) in the box that corresponds to the best response.

SA=Strongly Agree, A=Agree, I=Indifferent, D=Disagree, SD=Strongly Disagree

No	1. **Board Role and Composition**	SA	A	I	D	SD
1.	Board members have a series of reports that must be available before a board meeting holds.					
2.	Board has a performance evaluation technique and management succession plan for the staff.					
3.	Board and committee members are capable of interpreting all financial reports from staff.					
	2. Transparency and Disclosure	SA	A	I	D	SD
1.	Regular monthly and up to standard reports are made available to members.					
2.	The supervisory board reports its activities directly to the members; no board interference.					
3.	All financial reports are true and fare, no hidden or modified accounts.					
4.	There is a project committee which ensures all projects fall within objectives and budget of the union.					

No	3. **Auditing and Compliance**	SA	A	I	D	SD
1.	There is an independent audit committee (internal and external) that sits monthly.					
2.	The audit process meets the standards put in place by the Ministry of Finance and the software has an audit trail.					
3.	There is an internal policy guiding the activities and reporting channels of the internal controller.					
4.	There is a reputable external supervisory body which presents monthly reports about the union.					
5.	Monthly audit reports are presented by the internal and external auditors.					

No	4. Risk Management	SA	A	I	D	SD
1.	The financial institution has an up to date risk management policy.					
2.	There is a loan recovery task force with a detailed loan recovery schedule and procedure.					
3.	There is a defined cash ceiling and signatories to bank account sign just one cheque leaf at a time.					
4.	All staff files have performance evaluation, guarantor and observation forms which are updated regularly.					
5.	The financial institutions have access to all members quoted in the blacklist of all supervisory bodies.					
6.	All collaterals (landed property) are verified monthly at the level of the lands office.					
7.	All loan files are accompanied by business plans in the case of business loans or a detailed project.					

Section C: Financial Performance Indicators

No	1. Profitability	SA	A	I	D	SD
1.	Dividends paid in the union are on the increase (Latest dividends paid fall between 5% to 7%).					
2.	Service cost (loan interest, transfer and deposit charges) is reduced thanks to high profits.					
3.	All the reserve requirements (education, building, risk management) are met thanks to the profit level.					
4.	The institution is capable of recruiting and paying qualified personnel.					
5.	The financial institution meets all its social obligations through the profits made.					
6.	The profit of the financial institution is on a steady increase reflected by the reduction in transaction cost.					
7.	The sources of funds are relatively cheaper compared to the interest generated from loans.					
8.	Loan interest is paid on time and the actual is always equal to or above the expected amounts.					
9.	Profits are on the increase thanks to income generating assets like buildings.					
10.	All bills, payables, remunerations and others are paid on time.					
No	2. Liquidity	SA	A	I	D	SD
1.	All members' deposits are available on demand and timely.					
2.	There is a bank reserve account to meet prompt credit demands and savings withdrawals.					
3.	The institution targets and meets cash demands at peak periods without stress.					
4.	The institution lends out up to only 70% of her savings while the rest and shares are kept as reserves in the union's reserve accounts.					
5.	There is a cash ceiling (maximum safe amount) in all the union's branches.					
6.	There is a day-to-day liquidity follow up to ensure that liquidity and profitability are at equilibrium.					
7.	There is an investment account different from bank current accounts in which excess liquidity is deposited.					
8.	When demands for loans increase, investments in landed property are stopped till when there is excess liquidity in the union.					
9.	The institution ventures in external funding (loans and term deposits) only when loan demand is more than 70% savings.					
10.	There is an investment committee which puts all excess liquidity into profitable ventures.					
No	3. Loan Portfolio	SA	A	I	D	SD
1.	The number of delinquent loans and their amounts in the institution are on a decrease over time.					
2.	The loan interest collection rate in the institution is at least 90% or more.					
3.	There is an up to date loan policy which has considerably reduced bad debts.					
4.	The cost of loan recovery is far lower than the benefits from the loan.					
5.	The loan delinquency rate falls below the 5% regulation rate.					
6.	The loan recovery team has been very successful in collecting delinquent loans.					
7.	All delinquent loans above 1year are written off from the balance sheet.					
8.	All loan application files have duly registered mortgages.					
9.	All board, committee and staff loans are always current; no delinquency.					
10.	There are no fake collateral documents in the institution's loan files.					

SECTION D: Ranking Financial Performance Indicators
Rank the following in order of importance in your financial institution by marking a tick
(√) on the appropriate answer

NO.	Indicators	1st	2nd	3rd
1.	Profitability			
2.	Liquidity			
3.	Loan portfolio			