

Board Attributes and Financial Performance of Listed Firms in Uganda

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Abstract:

This study examines the relationship between Board of director attributes and financial performance of listed firms in Uganda. Board attributes of board size, Non-executive directors (board independence) and directors' shareholding are examined while controlling for firm size and leverage. The study uses a cross sectional research design, employing panel data of listed firms in Uganda for a period of four years. Financial and board attributes information is collected from annual reports of each firm. The study finds that non executive director's independence on board and large boards increase firm performance. We do not provide evidence to suggest that director's shareholding affects firm performance differently. Thus this study is consistent with evidence that shows the importance of board of directors' attributes on firm's financial performance.

Keywords: Board attributes, Firm performance

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1.0 Introduction

This study examines the role of effective corporate governance on firm financial performance. Theory argues that, agency problem (conflict) is due to separation of ownership and control. The agency conflict increases due to information asymmetry, moral hazard, time horizon conflicts and risk aversion. The owners of the firm need to reduce the opportunistic behavior of the managers in order to align managers' interests with those of the owners if they are to maximize shareholder value (Jensen and Meckling, 1976 and Fama 1980)

Existing evidence suggests that effective boards of directors reduce agency conflict further leading to increase in firm value or firm financial performance by reducing on information asymmetry. Thus this study argues that, corporate boards is an internal governance mechanism designed to control self-interested management from unscrupulous behaviors (Heracleous, 2001; Guan et al., 2007). Corporate board works as an intermediate arm of the firm that interfaces between the shareholders and the managers (John and Sebet, 1998; Stiles and Taylor, 2001). Thus its existence impact on a firm's financial performance (Ho and Williams, 2003; Mangena and Chamisa, 2008; Vafeas and Theodorau, 1998; Zahra and Peace, 1989).

Therefore we argue that, financial performance of a firm is substantially impacted by the board of directors' decisions. It attracts investment and helps in maximizing the company's funds, reinforcing the company's pillars and this results in increased financial performance (Waggoner, Neely and Kennerley, 1999). Financial performance also relates to the process by using which constrained resources at an organization's disposal are utilized correctly and effectively in reaching the common goal of the organization for both existing and future opportunities (Marn and Romuald, 2012; Yasser et al, 2011).

Studies examining the effect of a board's composition on firm financial performance in general find support for the notion that a majority of non-executive directors improve firm financial performance (Abidin et al., 2009; Beasley 1996; Brown and Caylor, 2004; Charitou et al., 2007; Ho and Williams, 2003; Jackling and Johl, 2009; Mangena and Chamisa, 2008; Peasnell et al., 2001; Perry and Shivdasani, 2005; Rhoades et al., 2000; Rosenstein and Wyatt, 1990; Shleifer and Vishny, 1997; Weir et al., 2002). On the other hand their findings to suggest that there is a negative or no relationship between the independent non-executive directors and firm financial performance (Bhagat and Black, 2000; Dalton et al., 1998; Daily and Dalton, 1992; Dulewicz and Herbert, 2004; Erickson et al., 2005; Heracleous, 2001; Hsu, 2010; Shivdasani and Zenner, 2002; Weir and Laing, 2001 Yermack, 1996).

There are also arguments that optimum number of board members of a company should be between seven and eight (Firsteberg and Malkiel, 1994; Jensen, 1993; Lipton and Lorsch, 1992; Muriithi, 2011; Okiro, 2006). The Larger the size of the board the higher the likelihood that the performance of that company will be less than optimal (Ali and Nasir, 2014; Belkhir, 2009; Guest, 2009; Gilland Obradovich, 2012; Jensen, 1993; Ibrahim et al., 2011). However, other findings such as Al-Matariet al., (2014) and Yasser et al., (2011) find board size to be positively but insignificantly related to financial performance. Similarly there argues to suggest that larger board size is more effective in performance (Abidin et al., 2009; Beasley and Salterio, 2001; Chaganti et al., 1985; and Coles et al., 2004). Other studies could not find any relationship (Ho and Williams, 2003; Magena and Chamisa, 2008).

Finally the agency theory supports the notion that greater directors' shareholding affects firm financial performance positively. Empirical results support this notion (Bhagat and Black, 1999; McConnell et al., 2008)

and; Morck et al., 1988; Seifert, Gonenc and Wright, 2005, Morck, Shleifer, and Vishny, 1988; Yammeesri, 2003). On the other hand, some researchers found conflicting results. Shah et al., 2011 found a negative relationship between ownership concentration and firm performance. Other studies fail to establish any relationship (Abidin et al., 2009; Hoand Williams, 2003; Mangena and Chamisa, 2008; and Rosenstein and Wyatt, 1997).

Berger and Patti (2002) argue that a firm's financial performance is measured by how much 'better off' the shareholder is at the end of a period compared to how he was at the beginning. Suggesting the increase in value of shareholders from the beginning to the end of a given accounting period (Kakanda, Bello and Abba, 2016). This study uses Return on Assets (ROA) and Return on Equity (ROE) to measure financial performance. Accounting-based performance measures present the management actions outcome and are hence preferred over market-based measures when the relationship between board attributes and firm financial performance is being investigated Hutchinson and Gull(2004); Mashayekhi and Bazazb (2008). Furthermore, most studies provide reliable results and they are the most used accounting measures of financial performance (Clarkson, Richardson and Vasvari, 2008; Ongore and K'Obonyo, 2015; Russo and Fouts, 1997; Stanwick and Stanwick, 2000).

While good financial performance is a target of every rational business enterprise, many enterprises both in developing and developed economies have had challenges of poor financial performance (Akisimire, 2016). Bank for International Settlements in 2015 survey shows that in Uganda many firms did not have well constituted boards of directors, directors overstep their roles and get involved in micro management. Thus, there is failure to understand clearly the proper role of a board of directors in the running of a company or institution, in particular, what the oversight function of a board of directors actually entails.

This study is limited to a few board of director attributes which included; independence of non-executive directors, directors' shareholding and board size. We focus on these three board attributes because literature and the theoretical framework indicate that these are the major mechanisms that affect firm financial performance. The study looked at data for companies listed on the Uganda Securities Exchange for a period of four years (2013 - 2016). This period is feasible for generalization considering the efforts made by Bank of Uganda, Capital Markets Authority and the Uganda Securities Exchange in monitoring, supervising and controlling the operations of the listed companies. A period of four years from 2013 to 2016 was also chosen because it is a period of economic stability in Uganda just after the economic volatility of the period 2007 to 2011.

2.0 Literature Review

Independence of Non-executive directors and financial performance

The board is one of the monitoring mechanisms that the shareholders can use to monitor top management (Fama and Jensen, 1983). Board independence has been defined as the ratio of non-executive directors to total directors (Barisua, Tobira and Lenee, 2012; Marn and Romuald, 2012; Yasser, Entebang and Abu Mansur, 2011). An important issue in the recent debate on board reforms is the balance between executive and non-executive directors on the board with the emphasis being on making the board independent of management. Corporate governance guidelines recommend that companies should be headed and controlled by boards that can lead and monitor the company and that these boards ought to reflect a balance between executive and non-executive directors, preferably with a majority being non-executive directors who are independent of management, so that shareholders' and other relevant stakeholders' interests can be protected (King Report, 2002). Non-executive directors are viewed as representatives and protectors of the wider range of stakeholders. They are often appointed to help in managing the interests of a firm's various stakeholders (Johnson and Greening, 1999; Wang and Dewhirst, 1992).

Non-executive directors are expert decision makers in other enterprises, and the value of their capital depends on their performance as decision-making experts in other firms (Fama and Jensen, 1983). Non-executive directors' appointments provide a signal to external markets that they are decision-making experts, who can understand the importance of decision control, and can work with decision systems (Vafeas and Theodouros, 1998). They need to fulfil their duties and responsibilities in order to protect their reputation capital so they can increase their future directorship opportunities (Beasley, 1996; Shivdasani, 1993).

Many theories, including agency theory support the argument that the independent non-executive directors are instrumental to a firm's performance (Wang and Dewhirst, 1992). It has been argued that firms with large proportions of outside directors on the board normally have less agency problems, and therefore, exhibit a better alignment between the interests of shareholders and those of management (Fernandes, 2005). Fama and Jensen (1983), Spencer (1983), and Jones and Goldberg (1982), argued that non-executive directors' representation on the board increases: board independence, directors' objectivity and enhances directors' expertise. In general, studies examining the effect of board independence on firm financial performance found mixed results. Most literature related to the proportion of non-executive directors on the board showed that boards with a majority of non-executive directors are more active in protecting shareholders' interests. Nicholson and Kiel (2007) argue that given their unparalleled knowledge of the corporation, inside directors are better placed to interrogate management proposals than can their independent counterparts. Brennan (2006) however, argues that non-executive directors are part-timers and therefore, do not possess requisite inside information about the business, and hence, may not

be competent enough to perform tasks assigned to them. He further argues that outside directors are creatures of the chief executive officers and therefore, are likely to forget their main purpose in the organization and align their own interests with those of the top management. This is especially true in jurisdictions where the chief executive is the sole source of information on potential nominees to the board (Ongore, Obonyo, OgotuandBosire, 2015). Other studies even suggested that non-executive directors do not have the required time, knowledge, skill and expertise to carry out their work effectively (Geneen, 1984; Vance, 1983).

Studies examining the effect of a board independence on firm financial performance in general find support for the notion that a majority of non-executive directors improve firm financial performance. For example, some studies showed that boards with majority non-executive directors perform better (Abidin, Kamal and Jusoff, 2009; Beasley 1996; Brown and Caylor, 2004; Charitou, Louca and Vafeas, 2007; Ho and Williams, 2003; Jackling and Johl, 2009; Mangena and Chamisa, 2008; Peasnell, Pope and Young 2001; Perry and Shivdasani, 2005; Rhoades, Rechner and Sundaramurthy, 2000; Rosenstein & Wyatt, 1990; Shleifer and Vishny, 1997) others report either negative or no relationship between the board composition and firm performance (Bhagat and Black, 2000; Daily and Dalton, 1992; Dalton, Daily, Ellstrand and Johnson, 1998; Dulewicz and Herbert, 2004; Erickson, Park, Reising and Shin, 2005; Heracleous, 2001; Hsu, 2010; Shivdasani and Zenner, 2002; Weir and Laing, 2001; Yermack, 1996).

Board size and financial performance

Board size is the magnitude of board of directors of a company; it is the total number of directors serving on the board of a company (Ogege and Boloupremo, 2014). Some studies argue that as board size increases, the position of the directors is improved which gives them more right to exercise their power in governing the organization, as the CEO dominance on the board is reduced (Zahra and Pearce, 1989). Lipton and Lorsch (1992) reported that number of board members of a company should be between seven and eight. This assertion is also consistent with the opinion of Jensen (1993). Muriithi (2011), in his study finds that it was apparent that the average size of the board of directors of eight members.

Muriithi (2011) reported a positive relationship between board size and firm financial performance. Okiro (2006) established no relationship between size of the board and financial performance of firms. In this effect, boards that have eight or less members stand a chance to maintain better focus, participation, good interaction and meaningful debate (Firsteberg and Malkiel, 1994). However, a required number of board members depend on industry-specific and size of firms; for instance, banking industry is found to have board sizes that are larger than that of manufacturing industry (Adams and Mehran, 2003). Subsequently, evidence is provided that larger boards are assumed to have directors with heterogeneous educational and industrial background and skill that will help to enhance actions of the firm, hence, improving performance (Pfeffer, 1987; Herman, 1981; Bacon, 1973).

There arguments that the larger the size of the board the higher the likelihood that the financial performance of that company will be less than optimal (Belkhir, 2004). Belkhir argues that communication, coordination of tasks and resolution-making effectiveness among a bigger size of people is a bit harder and entails a bigger financial burden than a smaller group of people. Jensen (1993) argues that whenever the size of the board goes beyond eight people, they are less likely to function effectively and efficiently. This would obviously undermine the monitoring role of the board of directors. He further argues that keeping boards small can help improve the financial performance of the organizations through efficient use of resources, and by avoiding procrastination in decision-making processes. Noticeably, Yermack reported that the inverse relationship between board size and the firm value weakens as the size of the board grew, meaning that the increase in incremental costs arose as the boards grew larger from small to medium and medium to large. Guest (2008), while examining the influence of board size on the performance of 2,746 UK listed companies over the period 1981-2002, found that the board size had a strong negative influence on profitability ratios (particularly, ROA (Return on Assets) and share returns.

Moreover, the inverse association between board size and performance was heightened for larger firms that had engaged larger boards. Indeed, Guest (2008) in his endeavors supported the assertion that concerns of poor communication and inefficient decision-making challenged the effectiveness of large boards. Gill and Obradovich (2012) found that larger board size negatively affects the value of American firms. Other stream of studies that found negative relationship between board size and firm performance include (Ali and Nasir, 2014; Ibrahim and Abdul Samed, 2011) among others. However, Yasser, Entebang and Abu Mansor, (2011) found a significant positive relationship between board size and performance measured by return on equity (ROE).

Al-Matari, Al-Swidi and Faudziah (2014) also finds that board size to be positively but insignificantly related to financial performance (measured by ROA). Other studies also argue that larger board size is more effective in performance (Abidin et al., 2009; Beasley and Salterio, 2001; Chaganti, Mahjan, and Sharma, 1985; Coles, Daniel and Naveen, 2008). Other studies could not find any relationship (Ho and Williams, 2003; Magena and Chamisa, 2008).

Directors' shareholding and financial performance

Directors' shareholding is one of the internal governance mechanisms to control the agency problem. Following

Jensen and Meckling (1976), several studies examine the relationship between directors' shareholding and performance (Adams & Santos, 2006; Bhagat and Black, 1999; Demsetz, 1983; Demsetz and Lehn, 1985; Demsetz and Villalonga, 2001; Finkelstein, 1992; Ho and Williams, 2003; Mangena and Chamisa, 2008; McConnell, Servaes, and Lins, 2008; Morck, Shleifer and Vishny, 1988). Fama (1980) suggests that directors' ownership helps to reduce the conflict of interest that exists between directors and shareholders. Directors who hold large stake in the firm are more likely to monitor management in order to protect their investments (Jensen, 1993). For example, large block holders, who have a strong incentive to closely monitor a firm, may acquire seats on the board, which enhances their ability to monitor effectively (Ahmed and Hadi, 2017).

Prior studies have shown different results on how directors' shareholding influences firm performance. Empirical studies generally support this notion. For example, Morck et al. (1988) attributes the increase of Tobin's Q with ownership to the convergence of interests between directors and shareholders. Bhagat and Black (1999) found a significant relationship between the number of shares owned by directors and firm performance. They argue that the reason behind this phenomenon is that the increase in directors' equity motivates directors to improve their monitoring of management and that improves firm performance. In contrast, they stress that this might be due to the inside information the directors have about the firm and its operations, thus they will increase their ownership to benefit from the firm's success. Seifert, Gonenc and Wright (2005), Morck et al. (1988) and Yammeesri (2003) finds a positive relationship between insider ownership and firm performance. On the other hand, Demsetz (1983) argues that insider ownership is internally derived so it has no credible impact on firm value. Yammeesri (2003) found that government, financial institution, and bank shareholders ownership had no impact on profitability. Shah, Butt and Saeed (2011) found a negative relation between directors' shareholding and firm performance because family owned firms in Pakistan dominate the board and there is lack of expertise, diversity and new knowledge for achieving operational efficiency.

There is evidence that directors' ownership and performance to be endogenous. Demsetz results were supported by (Cho, 1998; Holderness et al., 1999; and Demsetz and Villalonga, 2001.) Cho (1998) tested a reverse relationship between ownership and performance, using a cross-sectional 2-SLS regression to model. He found investment affects corporate value positively which in turn affects directors' ownership. Another aspect of corporate governance was investigated by Ho and Williams (2003); and Abidin et al. (2009), who examined directors' ownership and the value added by a firms' intellectual capital. Ho and Williams (2003) tested the ownership and value added in three countries (South Africa, Sweden, and the UK) and found that the coefficient for directors' shareholding is significantly positive for Swedish firms, but not significant for the South Africa and UK samples. Abidin et al. (2009) support Ho and Williams' (2003) findings for South African firms. Mangena and Chamisa (2008) investigated the impact of directors' ownership on the incidence of listing suspensions by the JSE Securities Exchange of South Africa. They find an insignificant relationship between directors' ownership and the suspension of firms by the JSE Securities Exchange.

The agency theory supports the notion that higher directors' shareholding affects firm performance positively. Empirical results support this notion (Bhagat and Black, 1999; McConnell et al., 2008 and; Morck et al., 1988). However, some studies fail to establish any relationship (Abidin et al., 2009; Ho and Williams, 2003; Mangena and Chamisa, 2008; Rosenstein and Wyatt, 1997).

3.0 Methodology

The study is comprised of firms listed on the Uganda Securities Exchange. Information on the board attributes of board composition, directors' shareholding, leadership structure and board size and financial information was primarily collected from annual reports of each company listed on the Uganda Securities Exchange for the 2013 to 2016. According to the USE website, the companies listed were 16. However, two of the firms had missing annual reports by the time of data collection, leaving a total of 14 firms for this study with 56 firm year observations.

Relevant information was extracted following a data collection guide on board attributes such as board size, number of non-executive director's, and directors' shareholding, total assets, debt and equity among others which were collected from the annual reports and later transformed into measures that describe the variables with respect to the study objectives. Financial information required for the study was primarily compiled from the following, income statements, statements of financial position, as well as from the notes on the financial statements. Information on the board attributes of board composition, directors' shareholding, leadership structure and board size were taken primarily from the annual reports of each company specifically the corporate governance section of the report.

This study examined three categories of board attributes and these were; board independence, directors' shareholding and board size. These were measured as below:

Board composition refers to the ratio of non-executive directors to total number of directors in the company. Board composition =
$$\frac{\text{Number of Non Executive Directors}}{\text{Total number of Directors}}$$

Directors' shareholding refers to the proportion of shares held by directors' in the company.

$$\text{Directors' shareholding} = \frac{\text{Total number of shares held by directors}}{\text{Total company shares}}$$

Board size refers to the total number of directors on a board. Board size was measured using the total number of directors on the board.

The firm's financial performance, measured in terms of return on assets (ROA) and return on equity, are the dependent variables. The ROA measures the capacity of a firm's assets to generate profits and it is considered to be a key factor in determining the firm's future investment. ROA is the indicator as what profit the company is earning against its available resources and was measured as:

$$\text{ROA} = \frac{\text{Profit after tax}}{\text{Total Assets}}$$

Return on Equity (ROE) indicates how much the company is earning to the ratio of investment of shareholders. It was measured as:

$$\text{ROE} = \frac{\text{Profit after Tax}}{\text{Equity}}$$

The Control variables used in this study include;

Firm size was measured using the natural logarithm of total assets (Anderson &Reeb, 2003; Barontini and Caprio, 2006; Wang, 2006).

Leverage (Borrowing level) was measured as the quotient between long term debt and long-term debt and Equity (Coles, Daniel and Naveen, 2005; Wang, 2006).

After determining the independent variables, dependent variables, and control variables, to analyse the respective relationships defined in prior sections a linear multiple regression analysis was used as a tool to examine the relationship between board attributes, control variables and firm's performance.

The regression models are given in the equations below:

$$\text{ROA} = \beta_0 + \beta_1 \text{BI} + \beta_2 \text{BS} + \beta_3 \text{DS} + \beta_4 \text{FS} + \beta_5 \text{L} + \epsilon_i; \dots \dots \dots \text{(i)}$$

$$\text{ROE} = \beta_0 + \beta_1 \text{BI} + \beta_2 \text{BS} + \beta_3 \text{DS} + \beta_4 \text{FS} + \beta_5 \text{L} + \epsilon_i; \dots \dots \dots \text{(ii)}$$

Where:

ROA (Return on Assets and ROE (Return on Equity) are the dependent variables;
 β_t Represent the slope of the independent variables. The independent variables are Board Independence (BI), board size (BS), directors' shareholding (DS) and control variables leverage (L) and Firm size (FS) and ϵ_i is normally distributed with a mean equal to zero.

4.0 Results

The following descriptive statistics were obtained from the analysis.

Table 1: Descriptive Statistics for Board attributes (Objective 1)

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|-------------------------|----|---------|---------|--------|----------------|
| Non-executive directors | 56 | 0.400 | 1.000 | 0.8204 | 0.1251 |
| Board size | 56 | 5 | 16 | 10.30 | 2.7430 |
| Directors' shareholding | 56 | 0.000 | 0.525 | 0.0649 | 0.1270 |
| Return on assets (ROA) | 56 | -0.141 | 0.221 | 0.0558 | 0.0669 |
| Return on equity (ROE) | 56 | -0.262 | 0.318 | 0.1218 | 0.1200 |
| lnFS | 56 | 19.93 | 30.62 | 27.265 | 2.6565 |
| Leverage | 56 | 0.000 | 1.659 | 0.2932 | 0.3693 |

Where

- Board composition -ratio of non-executive directors to total number of directors in the company.
- Directors' shareholding-proportion of shares held by directors' in the company.
- Board size- total number of directors on the board.
- lnFS-the natural logarithm of total assets
- Leverage- the quotient between long term debt and long-term debt and Equity
- ROA-ratio of profit after tax to total assets
- ROE-ratio of profit after tax to equity

On average, the board of directors are composed of 82% non-executive directors. This is consistent with the requirements of the corporate governance code of the United Kingdom that suggests that the board of directors should be composed of more than 50% of non-executive directors of which more than a half should be independent. The average board size is of 10 board members. This is slightly higher than average board size of between seven to eight as advocated by Lipton and Lorsch (1992) and Jensen (1993). Directors' shareholding is on average is on average of 6% with a maximum executive ownership of 52.5% of the firm. On average the Return on assets is at

5.58% with the average Return of equity is 12.18%.

4.4 Correlation analysis

Table 2: Pearson Correlations Matrix

| | Non-executive directors | Board size | Directors' shareholding | lnFS | Leverage | ROA | ROE |
|-------------------------|-------------------------|------------------|-------------------------|------------------|-------------------|------------------|-----|
| Non-executive directors | 1 | | | | | | |
| Board size | 0.251 0.062 | 1 | | | | | |
| Directors' shareholding | 0.069 0.615 | 0.128 0.347 | 1 | | | | |
| lnFS | 0.355** 0.007 | 0.512** 0.000 | 0.362** 0.006 | 1 | | | |
| Leverage | -0.187 0.169 | .279* 0.037 | .391** 0.003 | 0.387** 0.003 | 1 | | |
| ROA | 0.160** 0.038 | 0.174** 0.019 | -0.165 0.224 | -0.211 0.118 | -0.356** 0.007 | 1 | |
| ROE | 0.059** 0.034 | 0.148** 0.007 | -0.247 0.067 | 0.172 0.205 | -0.400** 0.002 | 0.797** 0.000 | 1 |

** . Correlation is significant at the 0.01 level (2-tailed).
 * . Correlation is significant at the 0.05 level (2-tailed).

The findings in table 2 above using a Pearson correlation coefficient tests provide preliminary evidence on the relationship between board attributes and firm performance. We show that there is a positive relationship between Board size, non executive director independence and firm performance. The relationship between director's shareholding and firm performance is insignificant. The study also finds a significant negative relationship between leverage and firm performance. This implies that as leverage increases, the financial performance of a firm reduces or deteriorates. These findings are consistent with Williams (2001) who argues that a high proportion of debt may lead a firm to focus primarily on the needs of debt holders and that firms with a high leverage ratio may lack attractiveness to investors, and will have a higher interest payments, which reflect on the risks and returns of the firm.

Table 3: Regression Analysis for ROE

| Model | Unstandardized coefficients | | Standardized coefficients | | P value |
|-------------------------|-----------------------------|-----------|---------------------------|----------|---------|
| | β | Std error | B | T - stat | |
| Constant | -0.239 | 0.144 | | -1.655 | 0.104 |
| Non-executive directors | 0.395 | 0.117 | 0.412 | 3.393 | 0.001 |
| Board size | -0.008 | 0.005 | 0.179 | 1.448 | 0.054 |
| Director shareholding | -0.169 | 0.111 | -0.179 | -1.519 | 0.135 |
| lnFS | 0.025 | 0.006 | 0.551 | 3.901 | 0.000 |
| Leverage | -0.218 | 0.042 | -0.670 | -5.185 | 0.000 |

Dependent variable is Return on Equity

From table 3, the results indicate that there is a significant positive relationship between board independence and ROE ($\beta=0.412$ and $p=0.001$). These findings are consistent with the argument that a greater proportion of outside independent directors on the board have positive impact on firm financial performance firms because large proportions of outside directors on the board normally have less agency problems, and therefore, exhibit a better alignment between the interests of shareholders and those of management (Fama and Jensen, 1983; Fernandes, 2005; Jackling and Johl, 2009; Jensen and Meckling, 1976; Shleifer and Vishny, 1997). The results also show that there no relationship between board size and ROE ($\beta=0.179$, $p=0.054$). The results in table 3 also suggest that there is no a relationship between directors' shareholding and ROE ($\beta=-0.179$, $p=0.054$).

Table 4: Regression Analysis for ROA

| Model | Unstandardized coefficients | | Standardized coefficients | | |
|-------------------------|-----------------------------|-----------|---------------------------|----------|---------|
| | B | Std error | B | T - stat | P value |
| Constant | 0.214 | 0.089 | | 2.409 | 0.020 |
| Non-executive directors | 0.170 | 0.072 | 0.318 | 2.372 | 0.022 |
| Board size | -0.012 | 0.003 | -0.471 | 3.448 | 0.001 |
| Director shareholding | 0.028 | 0.068 | 0.053 | 0.404 | 0.688 |
| InFS | -0.004 | 0.004 | -0.163 | -1.044 | 0.301 |
| Leverage | -0.091 | 0.026 | -0.504 | -3.533 | 0.001 |

Dependent variable is Return on Assets

Looking at the coefficient data in table 4, we can see that there is a significant a positive relationship between non executive directors independence and ROA ($\beta=0.318$ and $p=0.022$). This is similar to the findings using ROE. The results also show that there is a significant positive relationship between board size and ROA ($\beta=0.471$, $p=0.001$). Some studies report similar results and argue that larger boards have directors with heterogeneous educational and industrial background and skill that will help to enhance actions of the firm, hence, improving performance (Pfeffer, 1987; Herman, 1981; Bacon, 1973). The results in table 3 indicate that there is no relationship between directors' shareholding and ROA ($\beta=0.053$, $p=0.688$). The study finds a significant negative relationship between leverage and ROA ($\beta=-0.504$ and $p=0.001$ which is less than 0.05). These finds are consistent with Williams (2001) who finds that as companies increase long-term debt financing, their financial performance deteriorates.

5.0 Contribution and Implications

The purpose of the study was to examine the relationship between Board attributes and financial performance. ROA and ROE were used to measure the firm's financial performance. Three selected board attributes of board size, Non-executive directors (board independence) and directors' shareholding were considered for this study. In order to minimize the impact of other variables that could explain the relationship between board attributes and firm financial performance, two control variables of firm size and leverage were also included in this study.

The results show that there is a significant positive relationship between the presences of high number of non-executive directors on the board of directors (board independence) firm financial performance. The results therefore suggest that increase in number of non-executive directors increases firm financial performance. The results also show that there is a significant positive relationship between board size and ROA. This implies that as members on the board increase, firm financial performance also improves. We find no evidence to suggest that Director Shareholding influences firm financial performance differently. Overall, the results show the importance of directors' attributes on firm's financial performance and give several insights on how firms can improve their board effectiveness and performance.

This study contributes to the literature on corporate governance specifically board attributes of board size, board independence and directors' shareholding and financial performance in Uganda, by providing an empirical analysis of the relationship between board attributes and firm financial performance. The study has also established significant findings that will be very useful to operations of capital markets in Uganda and other firms listed and non-listed.

The study also recommends that companies should continuously develop and maintain corporate governance principles and mechanisms in place especially well constituted boards in terms of size and independence as these board attributes significantly influence how well a firm performs.

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