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Full length Research Paper

Corporate governance: Ownership structure, board structure and performance of public sector entities

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This study seek to examine ownership structure, board structure and their relationship with public sector entities' performance in Uganda. A cross-sectional and correlational research design with a sample of 85 public sector entities in Uganda was used. The findings portrayed that, CEO duality is not yet an issue as far as the performance of public sector entities in Uganda is concerned. Findings indicate that 67% of the variance in public sector entities' performance is explained by ownership structure and board structure. Evidence has emerged that it is necessary to reduce government ownership in public sector entities in Uganda to achieve better performance. The significance of this paper is also to contribute to the dearth of literature on the African experience concerning public sector management and performance. The study is carried out in Uganda where corporate governance code is not highly developed and the sample size for this study may limit its generalization. Our findings underlie the importance of privatization in enhancing proper performance of public sector entities.

Key words: Corporate governance, structure, public sector performance, Uganda.

INTRODUCTION

Corporate governance encompasses how an organization is managed, its corporate and other structures, culture, policies and strategies, and the ways in which it deals with its various stakeholders, (Barrett, 2002). The need for corporate governance arises because of the separation of management and ownership in the modern corporations. The positive theory of agency argues that the managers may behave opportunistically to maximize their own welfare, (Strong and Waterson, 1987; as cited by Merrett and Houghton, 1999). This agency problem can be mitigated through the protections derived from good corporate governance structures, (Okeahalam and Akinboade, 2003). Corporate governance structures encompass the ownership structure, the composition of the board of directors, the size of the board and the independence of the board among others, (Ehikioya, 2007). Corporate boards are seen to play a critical role by offering direction and guidance to any corporate entity, (Coleman and Biekpe, 2007) just as the ownership structure has been identified as playing an important role in the governance of entities, (Baysinger and Butler, 1991).

Significant headway has been made into research focused on establishing the relationship between various corporate governance structures such as the board structure, ownership structure and firm performance (see for example, Williams, 2000; Hermalin and Weisbach, 1998; Agrawal and Knoeber, 1996; Klein, 2002; Brickley et al., 1997; Westphal, 1999). Despite results from these studies, there are reasons that limit the value of such findings to Uganda. First, majority of these studies have relied on data obtained from the United States (see for example, Hermalin and Weisbach, 1998; Agrawal and Knoeber, 1996; Klein, 2002; Brickley et al., 1997) where ownership is highly dispersed. Secondly, these studies were not firms that had recently undergone privatization or are gradually being privatized. Uganda has undergone a series of privatizations of government-held entities with some entities being privatized piece-meal. We define a

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public sector entity as one where the public has interest to the extent that it might consume taxpayers' money. In light of many Ugandan public sector entities failing to meet stakeholders' expectations, there is an urgent need to understand the validity of governance structures such as the board and ownership in the these public sector entities because anecdotal evidence reveals that failure of public sector entities' performance to meet stakeholders' expectations is due to poor governance. This has been observed in incidences of inadequate internal control, dominance of individuals and absence of arms-length approach to some deals resulting in inefficiencies in the service delivery and inflated costs of operations. The purpose of this paper therefore is to examine the relationship between ownership structure, board structure and performance of selected public sector entities in Uganda. Specifically, we examine the ownership structure, the board structure, investigate the relationship between ownership structure and performance and investigate the relationship between board structure and performance. Accordingly, we answer the questions:

1. What is the ownership structure in selected public sector entities in Uganda?
2. What is the board structure in selected public sector entities in Uganda?
3. What is the relationship between ownership structure and performance of selected public sector entities in Uganda?
4. What is the relationship between board structure and performance of selected public sector entities in Uganda?

The significance of this paper is to contribute to the dearth of literature on the African experience concerning public sector management and performance. This paper is organized as follows: the next section is literature review, followed by methodology, then presentation of findings and finally, discussion, conclusions and recommendations.

LITERATURE REVIEW

The ownership structure of firms is an important element of corporate governance, the complex system of legal, institutional and market forces by which firms are governed (Berle and Means, 1932). A firm ownership structure can be defined along two main dimensions. First, the degree of ownership concentration; firms may differ because their ownership is more or less dispersed. Secondly, the nature of the owners; that is firms may be private, government-owned (state owned) and mutual (mixed owned), (Iannotta et al., 2006). Literature on corporate governance recognizes the board structure to encompass the board size (Dalton et al., 1999; Pfeffer, 1973; Pfeffer and Salancik, 1978; Singh and Harianto, 1989), board composition (Baysinger et al., 1991; Kosnik, 1987; Schellenger et al., 1989) and board independence (Fama and Jensen, 1983, Brickley et al., 1997).

Performance of public sector entities

Generally, performance shows the achievement of objectives. Whilst in the private sector entities the objective of profit maximization defines performance, its absence in the public sector entities generates difficulties, even paradoxes, in explaining this concept. Bouckaert and Balk (1991) stated that the opportunity and necessity of performance measurement in the public sector entities rise questions. For Meyer and Gupta (1994) and Jones and Pendlbury (2000), performance in the public sector entities is a paradox. Unlike the scholars aforementioned, Robert and Colibert (2008), sustained that the lack of profit in the public sector entities should not generate a low interest in studying performance. In their opinion, the concept of performance simply means that current revenues of the entity shall be compared with current expenditures not only for the sake of covering the expenses but also for leading to a little surplus.

Lorino (1995), states that performance is what contributes to the improvement of the couple cost-value, and not only what contributes to the diminution of cost or increase of value. This approach concerns three directions of action for the public sector entities; implementation of strategies allotted to the entities by political authorities, value infusion for the public, users whom the entity addresses to and control of resources that were allotted in order to accomplish their mission. From managerial perspective, performance, the attribute of managerial control is defined upon the effectiveness and efficiency relationship. Effectiveness focuses on achieving outputs within clear stated objectives, and efficiency shows the best management of means and capacities in relation with the output (Pendlebury, 2000). According to Niculescu and Lavalette (1999), performance is the competitive state of the entity, achieved on the basis of its two components, effectiveness and efficiency, elements ensuring for the entity a sustainable presence on the market.

Ownership structure and performance of public sector entities

The debate on ownership structure and performance goes back to Berle and Means (1932), who suggested that an inverse correlation was observed between the diffuseness of shareholdings and firm performance. Demsetz and Villalonga (2001), who argued that the ownership structure of a corporation should be thought of as an endogenous outcome of decisions that reflect the influence of shareholders, have challenged Berle and Means (1932)'s view. The property rights hypothesis (for example, Alchian, 1965), suggests that private firms should perform more efficiently and more profitably than government-owned firms should. In the case of government-owned firms, as Shleifer and Vishny (1997), point out that while they are technically controlled by the public, they are run by bureaucrats who can be thought of as having extremely concentrated control rights, but no significant cash flow rights. Additionally, political bureaucrats have goals that are often in conflict with social welfare improvements and are dictated by political interests.

The property rights theorem has been tested elsewhere. Majumdar (1998), for example compared the financial performance of state owned, private owned, and mixed state-private ownership firms and found that the most profitable firms were the private owned, followed by mixed ownership. State owned enterprises had the worst performance. Majority of other studies (see, Ramaswamy, 2001; Shleifer and Vishny, 1997; Shleifer, 1998) have drawn similar conclusions. The major reasons, they attribute to this trend, are that the government is guided by social altruism, which may not be in line with the profit motive. Secondly, the government is not the ultimate owner, but the agent of the real owners, the citizens and it is not the real owners who exercise governance, but the bureaucrats. There is no personal interest that bureaucrats have to ensure that an organization is run efficiently or governed well since they do not have any benefits from good governance. Bureaucrats and government respond to various interest groups (such as trade unions) as part of their social agenda (Lopez-de-Salines et al., 1997) and even if the public can exercise control directly, it is unlikely to be effective because of the extreme dispersion of the principals. Any social or non-social benefits are likely to be so diffused among the electorate that it is unlikely that there will be much of an incentive to exercise any governance over the organization to ensure it performs effectively (Andrews and Dowling, 1998). According to Shapiro and Willig (1990), firms that are governed by bureaucrats should perform better under private management because bureaucrats lack the incentives to maximize stakeholder value.

Board structure and performance of public sector entities

John and Senbet (1998), recognize board size, composition and independence to be the board structure attributes that determine the effectiveness of a board in monitoring management to enhance proper firm performance. Board composition refers to the number of independent non-executive directors on the board relative to the total number of directors. An independent non-executive director is defined as independent directors who have no affiliation with the firm except for their directorship (Clifford and Evans, 1997). There is an apparent presumption that boards with significant outside directors will make different and perhaps better decisions than boards dominated by insiders. The argument for the need of independent non-executive directors on the board is substantiated from the agency theory which states that due to the separation between ownership and control, managers tend to pursue their own goals at the expense of the shareholders (Jensen and Meckling, 1976). Hence, by having independent non-executive directors on the board, these directors would help to monitor and control the opportunistic behavior of management, and assist in evaluating the management more objectively. Furthermore, Brickley and James (1987) argued that outside directors also contribute to reduce management consumption of perquisites. In the absence of such monitoring by outside directors, managers might have the incentive to manage earnings in order to project better performance results and hence increase their compensation. Numerous studies (see, Agrawal and Knoeber, 1996; 1986; Adams and Mehran, 2003) have evidenced that the proportion of independent directors is correlated to firm performance. However, Agrawal and Knoeber (1996) and Yermack (1996), found that a higher proportion of outside directors on board is unfavorable to firm performance and that, there is a significant negative relationship between board outsider and firm performance. Nevertheless, Wier and Laing (2000) and Bhagat and Black (1999) showed that independent directors do not necessarily positively impact on firm’s performance, implying that perhaps the independent non-executive directors do not play their roles effectively just as Donaldson and Davis (1991) question the ability of independent directors to exercise effective oversight of the activities of executive managers. Subsequently, Byrd and Hickman (1992), and Donaldson and Davis (1991,), argued for insider-dominance of the boards and centralized control in the hands of firm managers. They suggest, based on stewardship theory, that managers are inherently trustworthy and not prone to misappropriate corporate resources. A large number of outsiders representing diverse interests may even reduce the economic flexibility of a firm, and result in conflicts between the board and the top management.

Thus, empirical studies of the effect of board structure on firm performance generally show results either mixed or opposite to what would be expected from the agency cost argument. Some studies find better performances for firms with boards of directors dominated by outsiders (Weibach, 1988; Resenstein and Wyatt, 1990; Mehran, 1995; John and Senbet, 1998), while Weir and Laing (2001), Pinteris (2002), Forsberg (1989), Hermalin and Weisbach (1998), and Bhagat and Black (2002) find no relationship between the proportion of outside directors and performance. Yet, Mac Avoy et al. (1983), Baysinger and Butler (1985) and Klein (1998), find that firm performance is insignificantly related to a higher proportion of outsiders on the board.

Another issue in relation to the board control mechanism is the independence of board chairperson (absence of CEO duality). CEO duality exists when a firm's CEO also serves as the chairman of the board of directors. While some organizational scholars favor the fusion of both positions (Anderson and Anthony, 1986; Harrison et al., 1988), others favor the separation of both positions (Lorsch and Maclver, 1989; Kesner and Johnson, 1990). The proponents of this duality role believe that the greater levels of information and knowledge possessed by a joint CEO/chairperson will enable him or her to better manage and direct the board's discussions and agenda (Harrison et al., 1988). Separation of the two roles may create a conflict or power struggles among corporate leaders as well as confusion about corporate objectives and expectations (Baglia et al., 1996). The advantages of clear and strong leadership might be most valuable in situations of crisis, where fast decision-making and clear strategic direction are required (Davidson et al., 1996; Mueller and Baker, 1997). On the other hand, moves aimed at separating the roles and functioning of these two positions have received some attention in the UK, USA and Australia (Lorsch and Maclver, 1989; Dobrzynski, 1991). Less consideration has been given to it in Japan, France and Germany (Dalton and Kesner, 1987). For a board to be effective, it is important to separate roles, as it avoids CEO entrenchment (Jensen, 1993). Too powerful a CEO hinders outside directors to oppose and challenge strategic propositions from the CEO (Golden and Zajac, 2001). Thus, there is an argument that a strong CEO arising from the CEO duality will have a negative impact on firm performance.

The Cadbury Report (1992) recommended that one person should not take the positions of board chairperson and chief executive. It has been argued that the incidence of leadership duality would diminish the control power (Fama and Jensen, 1983; Morck et al., 1987) and independence (Rechner, 1989) of the board. Rechner and Dalton (1991), found that leadership duality impaired the profitability of firms. In contrast, Boyd (1995) concluded that firm performance is positively associated with the incidence of leadership duality. However, Baliga et al. (1996) and Dalton et al. (1998), Vafeas and Theodorou (1998), Weir and Laing (2000) and Weir et al. (2002) did not find that the leadership duality has any significant influence on firm performance.

Board size is another important attribute of corporate governance. Literature suggests that small corporate boards are more effective monitors than large boards because they have a high degree of membership coordination, less communication difficulties, and a lower incidence of severe free-rider problems. Jensen (1993) and Lipton and Lorch (1992) contended that independent directors are less likely to function effectively when boards get large since it becomes more difficult for them to express their ideas and opinions and so influence the effectiveness of decision-making and control. On the other hand, it has been argued that larger board allow for specialization within the board because of better allocation of duties based on expertise, which is in turn would enhance better monitoring (Ahmed and Duellman, 2007).

The earliest literature on board size is by Lipton and Lorch (1992) and Jensen (1993). Jensen (1993) argued that the preference for smaller board size stems from technological and organizational change, which ultimately leads to cost cutting and downsizing. Hermalin and Weisbach (1998) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members, agency problems may increase, as some directors may tag along as free-riders. Lipton and Lorch (1992) recommended limiting the number of directors on a board to seven or eight, as numbers beyond that it would be difficult for the CEO to control. Lipton and Lorch (1992)'s recommendation is at variance with the need for the board to control/monitor the CEO although they argue that a large board could result in less meaningful discussion, as expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board. In addition, the problem of coordination outweighs the advantages of having more directors (Jensen, 1993) and when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management (Hermalin and Weisback, 1998). It can be argued that very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards and larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality (Dalton and Dalton, 2005). Expropriation of wealth by the CEO or inside directors is relatively easier with smaller boards since small boards are also associated with a smaller number of outside directors. The few directors in a small board are preoccupied with the decision making process, leaving less time for monitoring activities.

Limiting board size to a particular level is generally believed to improve the performance of a firm because the benefits by larger boards of increased monitoring are out weighed by the poorer communication and decision making of larger groups (Steiner, 1972; Hackman, 1990 as quoted by Kathuria and Dash, 1999). Empirical studies on board size seem to provide the same conclusion; a fairly clear negative relationship appears to exist between board size and firm value. Too big a board is likely to be less effective in substantive discussion of major issues among directors in their supervision of management. Liang and Li (1999), with Chinese data, find negative correlation between board size and profitability. Mak and Kusnadi (2005), also reported that small size boards are positively related to high firm performance. In a Nigerian

Table 1. Sample, population size and response rate.

Sub division	Population	Sample	Response rate (%)
Wholly state owned	21	19	100
Partially state owned	80	66	100
Total	101	85	100

study, Sanda et al. (2003) reported that firm's performance is positively correlated with small, as opposed to large boards.

The preceding arguments were empirically tested and a negative association between board size and performance were reported by Yermack (1996), Eisenberg and Sundgren (1998) and Barnhart and Rosenstein (1998). Yermarck (1996) analyzed a sample of 452 large U.S industrial corporations between 1984 and 1991 and consistently found an inverse relationship between board size and firm value. Even when firm value represented by Tobin's Q was substituted with other proxies such as return on assets, return on sales and sales/assets, the negative relation persisted. Following Yermarck's analysis of large firms, Eisenberg and Sundgren. (1998) tested the relationship between board size and profitability on small and midsize Finnish firms. They presented evidence of a negative association between board size and profitability, thus supporting the theory put forward by Lipton and Lorch (1992) and Jensen (1993) although Barnhart and Rosenstein (1998) found that firms with smaller board size perform better than firms with large board size. Vafeas (2000) reported that firms with the smallest boards (minimum of five board members) are better informed about the financial performance of the firm and thus can be regarded as having better monitoring abilities. Bennedsen et al. (2004), in their analysis of small and medium-sized closely held Danish corporations reported that board size has no effect on performance for a board size of below six members but found a significant negative relation between the two when the board size increases to seven members or more.

In summary, empirical research on board size suggests that greater board size in most cases is negatively associated with firm performance, although a meta-analysis by Dalton and Dalton (2005) found positive correlations between the two variables. Boards with a large number of directors can be a disadvantage and expensive for the firms to maintain. Planning, work coordination, decision-making and holding regular meetings can be difficult with a large number of board members. However, the effectiveness of the board does not depend on how many directors sit on it, although a minimum number of directors with adequate experience and knowledge is vital to ensure tasks are carried out efficiently. Lipton and Lorsch (1992), recommended limiting the membership of boards to ten people, with a preferred size of eight or nine. The Cadbury committee (Cadbury, 1992) also recommends that the ideal size of the board should be between eight and ten members.

A general belief exists that companies with good corporate governance structures in form of board structures and ownership structures perform better than those without. There is evidence that the performance of a firm is directly related to good corporate governance. Companies with better corporate governance have better operating performance than those companies with poor corporate governance (Black et al., 2003) which is concurrent with the view that better governed firms might have more efficient operations, resulting in higher expected returns (Jensen and Meckling, 1976). A study by Daily and Dalton (1994), demonstrated that the likelihood of bankruptcy is related to poor corporate governance structures. Although, there is a growing literature linking corporate governance to company performance, there is, equally, a growing diversity of results (See for example ,Dalton et al., 1998; Weir and Laing, 2001; Pinteris, 2002;). This coupled with the dearth of literature linking ownership structure and board structure to performance of public sector entities warranted further research.

METHODOLOGY

This study used a cross sectional and correlational research design. The study uses descriptive and analytical research design to establish whether a change in the ownership structure and board structure results into a change in the performance of public sector entities. The population comprised of public sector entities in Uganda with independent governing bodies that are business oriented. These are firms where the state has ownership. They may be wholly state owned or partially state owned (mutual firms) and are 101 in total based on an estimate by Ministry of Finance and Economic Development (2009) and the Uganda Bureau of Statistics (2009) statistical abstract. Using Krejcie and Morgan, (1970), a sample of 85 firms was determined from a population of 101 because for purposes of this study, this sample would both be of practical and statistical significance. In addition stratified sampling based on selected sub divisions consisting of wholly state owned entities and partially owned state entities (mutual firms) was adopted (Table 1). Purposive sampling was also used to select respondents in the best position to provide the required data (Sekaran, 2000). These comprised of three members of management and two Board members from each entity. The response from the respondent firms was 100%. The unit of analysis in this study is public sector entities with independent governing bodies that are business oriented.

Primary data was obtained through the use of self administered questionnaires (to respondents following the systematic and established procedures as suggested by (Churchill, 1979). Therefore, data on the board and ownership structures of public sector entities not found in the annual reports or from other secondary

Table 2. Reliability coefficients.

Variable	Cronbach alpha coefficients
Ownership structure	0.8365
Board structure	0.7281
Performance	0.7682

sources was captured. Secondary data was obtained from public sector entities' annual reports, journals, newspapers and magazines and several related data bases.

The questionnaire was designed according to the objectives and study variables and responses to the questions on the performance of public sector entities were anchored on a five point Likert scale ranging from 5 – strongly agree to 1 - strongly disagree. Part one of the questionnaires was used to gather demographic data of the respondents and part two was to collect data on ownership structure, board structure and performance of public sector entities.

To ensure reliability and validity of the instrument, reliability analyses of the scales in the research instrument was carried out by performing Cronbach's alpha coefficient test (Cronbach, 1946). Alpha coefficient of above 0.6 for individual test variables was accepted meaning the instrument was valid. Table 2 shows the findings.

For the measurement of Variables ownership structure was measured utilizing the works of Lang and McNichols (1999), Monks and Minow (1995) and Majumdar (1998) and dimensions such as wholly state versus partially state (state-private) ownership firms were captured. The board structure was measured using John and Senbet (1998), who consider the board structure attributes that determine effectiveness of a board in monitoring management to ensure proper performance of the firm to be its composition, independence and size. Performance of public sector entities was measured based on the financial yield and value for money using the likert scale of 1 to 5, to establish their perceived performance. These performance measures are concerned with achieving organizational objectives. Value for money is a matter of ensuring efficiency, effectiveness and economy in the public sector entities (Erlendsson, 2002; Harvey and Green, 1993; Lomas, 2000; Campbell and Rozsnyai, 2002).

After collecting the data, it was edited, coded and checked to have the required quality, accuracy and completeness. Then data was analyzed using SPSS 17.0 program, which provided descriptive outputs. Correlation analysis was carried out to establish the relationship between the variables. Multiple regression analyses were used to determine the extent to which variations in performance of public sector entities is explained by the ownership and board structures.

FINDINGS

To determine the general attributes of the respondents, frequency tables were used. These attributes include; the qualification, age, type of industry and gender. Results reveal that most of the respondents held a first degree (48.1%) followed by those who held a masters degree (20.2%), professional qualification (19.7%) and the least percentage (12%), a diploma. This does not differ from the expectation that board members need to be fairly learned (Levin and Mattis, 2006). The majority of the respondents were in the age bracket of 36 to 45 years (49.7%). Those in the age bracket of above 55 years come in second position (28.4%) and the age bracket 46 to 55 years took the remaining percentage (21.9%) which reflects that most board and managerial positions in Uganda are normally taken by mature people. Results further show that 98 respondents were females representing 53.6% and 85 respondents were males representing 46.4% of the total respondents. This means that females are increasingly taking on board and managerial positions in the selected public sector entities. This may be a result of increasing gender activism in the country where the women activists have persistently advocated for equal treatment of women in the corporate world. Many selected public sector entities in Uganda may have taken having females on management and Board of directors as a corporate Social responsibility for affirmative reasons. The greatest number of respondents was involved in service sector (63.4%). This was followed by trade with 23.5% of the respondents, manufacturing provided 12.6% and agriculture 5% of the total respondents. This tends to agree with the notion that most of the public sector is service oriented (Shirley, 1983).

In terms of ownership, most of the respondents (82.5%) in selected public sector entities said that, government was not a sole shareholder while the remaining 17.5% said that government was a sole shareholder. In addition, the largest percentage (77.6%) of the respondents in selected public sector entities said that government was not the majority shareholder while the remaining 22.4% said that government was the majority shareholder. 100 respondents said that private individuals were the majority shareholders representing 54.6% and 83 respondents were disagreeing representing 45.4% of the total respondents. This means that the government of Uganda has limited ownership in the selected public sector entities which may be attributed to the successes of the privatization programmes in the country.

In terms of board size, composition and independence in selected public sector entities, the majority of the selected public sector entities had a board of directors made up of members between 9 to 12 (39.9%), followed by those who were between 5 to 8 (31.7%), the 2 to 4 category had (22.4%) and the least percentage (6%), above 12. This tends to agree with the presupposition that entities where the government has ownership tend to have fairly a large number of directors that is at least 8 directors (Klein, 1998). This is usually so, because the government is always under pressure to meet the needs of various pressure groups, individuals and thus may end up with many directors to represent all the concerned parties such as the disabled and women for affirmative reasons in the case of Uganda. Results reveal that in a large number of the selected public sector entities (54.6%) the CEO/ MD was not the chairman of the board of directors while 45.4% had CEO duality. This means that most of the boards of directors in selected public sector entities had a degree of independence due to

Table 3. Zero-order.

	1	2	3	4	5
Government is majority shareholder (1)	1				
Private individuals are majority shareholders (2)	-0.506**	1			
Government is sole shareholder (3)	-0.254**	-0.502**	1		
MD is chairman board of directors (4)	0.367**	-0.292**	-0.188*	1	
Performance of public sector entities (5)	-0.480**	0.777**	-0.411**	-0.351**	1

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

Table 4. Regression of ownership structure and board structure on the performance of public sector entities.

Model		Coefficients[(a)] Unstandardized coefficients B	Unstandardized coefficients Std. error	Standardized coefficients Beta	t	Sig.
	(Constant)	3.495	0.119		29.392	0.000
1	Government is majority shareholder	-0.300	0.103	-0.205	-2.896	0.004
	Private individuals are majority shareholders	0.449	0.105	0.357	4.261	0.000
	Government is sole shareholder	-0.285	0.124	-0.178	-2.301	0.023
	Number of members of management on board of directors	-0.097	0.022	-0.287	-4.375	0.000
	MD is chairman board of directors	-0.130	0.067	-0.103	-1.931	0.055
	R = 0.825[a]	R square = 0.680		Adjusted R square = 0.670		

[(a)]Dependent variable: Performance of public sector entities.

absence of leadership duality (Boyd, 1995). This may be explained by the fact that most of these entities are largely owned by private individuals who are so much concerned about performance and thus will do anything to remove all obstacles that limit it including leadership quality. The majority of the selected public sector entities had between 1 to 3 managers (62.8%) on the board of directors, followed by those that had between 4 to 6 (27.4%) and the least were entities that had 7 and above managers on the board (9.8%), which shows that most the selected public sector entities have a small number of executive directors (insiders) given the fact that most had between 9 and 12 directors. This further emphasizes that most of the boards in selected public sector entities have a degree of independence based on the notion that the board independence increases as the proportion of outside directors' increases (Fama and Jensen, 1983).

In order to examine the relationship between ownership structure, board structure and performance of public sector entities we employed Pearson's correlation tests. The correlation test is a measure of the relationship between two variables. The following bi-variate Table 3 shows the results of the tests.

Results from Table 3 indicate that the ownership structure significantly correlates with performance of selected public sector entities ($r = -0.480$, $p \leq 0.01$, where government is the majority shareholder, $r = 0.777$, $p \leq 0.01$ where the private individuals are the majority shareholder and $r = -0.411$, $p \leq 0.01$ where government is the sole shareholder). This is indicative of the fact that when government ownership reduces in public sector entities, their performance increases. There is a significant negative correlation between CEO duality and performance of selected public sector entities (r = -0.351, p ≤ 0.01). This means that when the chairman of the board of directors is at the same time the CEO or MD, it increases the likelihood of poor performance of the selected public sector entities. The result indicates that having the same person holding both positions of the CEO/ MD will have a negative bearing on the performance of these entities.

To establish the extent to which ownership structure and board structure predicted performance of the selected public sector entities, a prediction model was developed using multiple regression analysis as shown in Table 4.

Results from Table 4, show that a combination of ownership structure and board structure explained on average up to 67% variations in the performance of the selected public sector entities, implying that other than board structure and ownership structure, there are other factors affecting the performance of these entities. However, the ownership structure and board composition (inside vs. outside directors) are the significant predictors of performance of selected public sector entities. An increase in private ownership leads to 0.357 positive changes in performance of the selected public sector entities while an increase in government ownership leads to 0.383 (-0.205 to 0.178) negative changes in performance of public sector entities and a higher number of outside directors on the board increases the likelihood of good performance of the selected public sector entities. On the other hand, duality of the CEO is an insignificant predicator of performance of the selected public sector entities, which implies that the CEO being at the same time the chairperson of the directors has an insignificant effect on the performance of these entities.

DISCUSSION

Firms may be private, government-owned (state owned) and mutual (mixed owned) (Iannotta, Nocera and Sironi, (2006). This study reveals that private individuals own the majority of the selected public sector entities in Uganda. The reason for this trend may be the successes of the privatization programmes in the country that saw most of the public sector entities being transferred to private individuals. However, even with this ownership trend, performance of the selected public sector entities is still not meeting the expectations of various stakeholders. According to Shapiro and Willig (1990), firms that are governed by bureaucrats should perform better under private management because bureaucrats lack the incentives to maximize stakeholder value. This may be due to partial privatization that is allowing continued excessive government involvement in their activities which usually negatively affects the performance as shown by (Bortolotti et al., 2003). The findings on board size show that in general the selected public sector entities have moderate boards. The majority of these entities had between 9 and 12 directors. These figures are consistent with figures reported by Mak and Kusnadi (2005), Dogan and Smyth (2002) and Abdullah (2004). The board size of these selected public sector entities can be regarded as small if compared to board sizes of American, British, Canadian, Spanish, French and Belgian firms with a mean board size of 12 or 13 directors (Andres, et al., 2005) and Japanese firms with a mean of 28 directors (Bonn, et al., 2004). It is however similar to Singaporean and Australian firms, each with a mean of 9 directors as reported by Thompson and Chu (2002) and Mak and Kusnadi (2005) for Singaporean firms, Bonn, et al., (2004) for Australian firms. Therefore, this indicates that the board size in the selected public sector entities is suitable for proper performance if compared to American, British, Canadian, Spanish, French and Belgian firms whose performance is usually appropriate (Andres, et al., 2005). Findings further indicate that a large number of the selected public sector entities (54.6%) had an independent chair of the board of directors that is, had no CEO duality. The implication here is that most of the boards of directors in selected public sector entities have a degree of independence due to absence of leadership duality. It has been argued that the incidence of leadership duality would diminish the control power (Fama and Jensen, 1983, Morck et al., 1998) and independence (Rechner, 1989) of the board. When the chair of the board is also the CEO, he/she may have some influence on the judgment of other board members on the managerial performance and quality of earnings. The support for this finding may be that because the government selects most of these board members, it may impossible to select one person for two jobs, for political reasons.

The findings on executive directors were in agreement with Sirmans, et al., (2006) who emphasized presence of a limited number of managers on the board of directors with the majority of the board members being independent non-executive directors. Results from this study reveal that most of the selected public sector entities had on average approximately 3 managers on the board of directors. Board composition of the selected public sector entities are made up of mainly non – executive directors given the findings, where the majority of these entities have between 9-12 board members. While executive directors are expected to provide first-hand information on the firm’s operation to other board members (Boumosleh and Reeb, 2005), they are usually aligned with the CEO. Due to this implicit relationship with the CEO, many inside directors may not contribute towards effective monitoring of the CEO. Therefore, boards with more executive directors do not lead to enhancing firm performance (Sirmans, et al., 2006). However, this finding in Uganda could be because of the size and complexity of Ugandan firms. Firms in Uganda are small and less complex. The Ugandan economy is also very much in its infancy and hence may not support a large number members sitting on a particular firm's board.

The significant relationship between ownership structure and performance of the selected public sector entities implies that as government ownership continues to diminish in the selected public sector entities, their performance tends to increase. This could be a result of government-owned firms being run by bureaucrats who can be thought of as having extremely concentrated control rights, but no significant cash flow rights (Shlefer and Vishny, 1997). Additionally, political bureaucrats have goals that are often in conflict with social welfare improvements and are dictated by political interest (Fama and Jensen, 1983). This may cause inefficiency as the benefits of concentrated ownership are forgone. According to Majumdar (1998), Ramaswamy (2001), Shleifer and Vishny (1997) and Shleifer (1998), this trend may also be attributed to the fact that the government is guided by social altruism, which may not be in line with the profit motive. Government firms may be set up just to give jobs. Secondly, the government is not the ultimate owner, but the agent of the real owners, the citizens and it is not the real owners who exercise governance, but the bureaucrats. There is no personal interest that bureaucrats have to ensure that an organization is run efficiently or governed well since they do not have any benefits from good governance. Bureaucrats and government respond to various interest groups (For example, trade unions, and affirmative action in the case of Uganda) as part of their social agenda (Lopez-de-Salines et al., 1997).

Findings show that a high proportion of executive directors has a significant negative relationship with the performance of the selected public sector entities. These findings are supported by Wier and Laing (2000), who concluded that for a firm to be effective in its monitoring, it should, among other things, have boards with significant outside directors who may make different and perhaps better decisions than boards dominated by insiders. The argument for the need of independent non-executive directors on the board substantiated from the agency theory which states that due to the separation between ownership and control, managers tend to pursue their own goals at the expense of the shareholders (Jensen and Meckling, 1976). Hence, by having independent non-executive directors on the board, these directors would help to monitor and control the opportunistic behavior of management, and assist in evaluating the management more objectively. Brickley and James (1987) argued that outside directors also contribute to reduce management consumption of perquisites. In the absence of such monitoring by outside directors, managers might have the incentive to manage earnings in order to project better performance results and hence increase their compensation. However, this results contradict the works of Booth and Deli (1996), Hossain, Cahan and Adams (2000) who point out that inside (executive) directors possess knowledge of the firm's operating policies and day-to-day activities in contrast to the non- executive directors that facilitates the decision making on the firms' activities. The evidence from this study is consistent with earlier empirical studies by Baliga et al*.* (1996), Dalton et al. (1999), Vafeas and Theodorou (1998), Weir and Laing (2000), Brickley et al. (1997) and Weir et al*.* (2002) which found no evidence that separating the roles of the CEO and chair of the Board of Directors improves firm performance. The findings portrayed that, CEO duality is not yet an issue as far as the performance of the selected public sector entities in Uganda is concerned. However, we believe that combining the positions of chair and CEO confers greater power to the CEO, who gains the title of chair after having outperformed his/her peers. The chair title serves as a reward to a new CEO who has demonstrated superior performance and represents an implicit vote of confidence by outside directors. Then, requiring companies to separate the positions of CEO and chair would deprive boards of an important tool to motivate and reward new CEOs (Brickley et al*.,* 1997).

A conclusion can be drawn that firms that are governed by bureaucrats should perform better under private management because bureaucrats lack the incentives to maximize stakeholder value. Our findings underlie the importance of privatization in enhancing proper performance of the selected public sector entities. Public sector entities in Uganda with a higher level of private ownership find it easier to operate more efficiently, profitably and effectively because the real owners influences personal interest to ensure that an organization is governed well in expectation of benefits accruing from good governance. The findings suggest that performance of the selected public sector entities is not dependent on having moderate board sizes and absence of CEO duality.

In view of the findings, sufficient evidence has emerged that it is necessary to reduce government ownership in the selected public sector to achieve better performance. Most of these entities that are performing relatively well are those that have minority government ownership. It is recommended that government ownership is reduced in the selected public sector entities as the basis for achieving better performance. This can be best achieved through full privatisation of these entities that is, once the privatization process is complete, the government should limit its interference in the privatized entity to allow it make necessary decisions needed to improve its performance. Our model explains 67% of the variations in public sector firms' performance. There is need to find out other factors affecting the performance of the selected public sector

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