ORGANIZATIONAL CULTURE, ACCOUNTING INFORMATION SYSTEM AND FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTIONS IN UGANDA

BY

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A RESEARCH DISSERTATION SUBMITTED TO THE DIRECTORATE OF GRADUATE STUDIES, RESEARCH AND INNOVATION IN PARTIAL FULFILLMENT FOR THE AWARD OF MASTERS OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE OF BUSITEMA UNIVERSITY

PLAN A

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DECLARATION

I Emusugut Desterio, do confirm that this research dissertation is my own work which has never been submitted for examination in this university for academic qualification.

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APPROVAL

This dissertation is submitted to Busitema University as a partial fulfillment for the award of Masters of Business Administration in Accounting and Finance with our approval as selected internal supervisor(s).

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DEDICATION

This dissertation is dedicated to my adored parents namely: Emusugut Francis Ekodoi, and Noberita Sabu who provided me with both financial and non-financial assistance that enabled me accomplish this course and above all the Almighty God.

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LIST OF ACRONYMS

ABM	:	Annual Budget Monitoring
AIS	:	Accounting Information System
DFCU	:	Development Finance Company of Uganda
FP	:	Financial Performance
IMF	:	International Monetary Fund
OC	:	Organizational Culture
ROA	:	Return on Assets
ROE	:	Return on Equity
ROI	:	Return on Investment
ROTA	:	Return on Total Assets
UBOS	:	Uganda Bureau of Statistics
UNCTAD	:	United Nations Conference on Trade and Development

OPERATIONAL DEFINITION OF KEY TERMS

Financial Performance: it is the measure of how financial objectives are accomplished through gauging the outcomes from the policies and operations made by the organizations in monetary terms for a given time period.

Accounting Information System: refers to the process of integrating the computerized sub-systems with the view of transacting data, and processing financial information.

Organizational Culture: refers to the organization's expectations and values that enable a member change his or her behavior in terms of inner workings, and interactions with the environment.

Return on Equity: is the ratio that measures the business earnings as a percentage of average ordinary shareholder funds.

Return on Assets: is the percentage of profits generated from a company in relation to its total assets.

Return on Investment: is defined as the performance measure that is used to appraise and compare the efficiency of various investments.

Financial Institutions: is a corporation that engages in a business of financial and monetary transactions especially loans, currency exchange, deposits, and investments.

ABSTRACT

This study examined the mediating effect of accounting information system on the relationship between organizational culture, and financial performance of financial institutions in Uganda. The study applied a cross sectional research design, and a quantitative approach. Data were collected from 35 financial institutions as a target population with the accessible unit of inquiry being 105 employees consisting of managers, credit administrators (loan officers), and supervisors. Data were collected with the aid of closed ended questionnaire and Statistical Packages for Social Sciences was used for analyzing data from which frequency tables, descriptive statistics, reliability, validity, correlation, and regression results were obtained. *Med graph* application for testing mediation effect was used. The study findings revealed that there is a positive and statistically significant relationship between organizational culture, and financial performance; organizational culture and accounting information system; accounting information system and financial performance. The study also revealed that accounting information system partially mediates the relationship between organizational culture, and financial performance. The study therefore, recommends that efforts to improve financial performance depends on an appropriate and effective organizational culture and adoption of an automated Accounting Information System.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In today's changing business environment, financial institutions are striving to perform effectively and efficiently thus making the business owners to demand for higher returns on their investment (Akanbi & Adewoye 2018). Despite all efforts geared towards enhancing financial performance, numerous studies have indicated a declining financial performance (Safakli 2012; Kanakriyah 2017). For instance, global survey that was conducted by the European Central Bank working paper series (2005), revealed that most giant banks are failing due to a tremendous decline in the portfolio of real estate sector at the time of great recession which consisted of giant banks having assets of more than $1 billion that failed at the rate of 150%; whereas small banks with assets of less than $1 billion declined at the rate of 50%. In China, International Monetary Country Fund report (2019) stresses that the net worth of capital outflows of financial institutions has deteriorated from $650 billion in 2016 to $30 billion in 2018 as a result of changes in financial reforms, and high rate of softening external demands. Relatedly in India, microfinance institutions' Return on Assets declined from U$123.7 to U$ 122.8 and the process of generating loans sharply reduced from 94% in 2016 to 85% in 2017 (Mohd 2018). Africa has fallen suit of poor financial performance. For example, in Tanzania, Lotto (2017) argued that on average, the foreign banks were more profitable with a return on equity of 21%, and return on assets of 2.8% as compared to domestic financial institutions with 4% return on equity and 1.1% return on assets. In Kenya, Odhiambo (2015) maintained that the deteriorating financial performance is as result of limited mortgage financing which has fallen below 15% against 54% of the total banking assets. The problem is more pronounced in Uganda where the banking industry underwent a sign of restructuring making several banks to be declared insolvent, and eventually liquidated and taken over by central bank. These banks included Uganda Corporative Bank, Greenland Bank, and International Credit Bank between 1990s to 2000. In 2012, Bank of Uganda closed National Bank of Commerce (Uganda) and the deposits were taken over by Crane Bank. Lately in 2016, Crane Bank collapsed as a result of increasing non-performing loans and was acquired by DFCU Bank. In the annual report of Centenary Bank (2018), the firm's return on assets (ROA) reduced to 3.7% in 2018 from 5.1% in 2016, and return on equity (ROE) declined from 19.2% to 17.9% between 2017 and 2018. The situation is similar to the report of Development Finance Company of Uganda bank (DFCU) that indicates a reduction in assets by 2.7 from UGX 3.03 trillion to 2.89 trillion (Dfcu 2018).

In addressing the declining financial performance of financial institutions, the study was guided by contingency theory and institutional theory. Contingency theory as suggested by Gordon and Miller (1976) assumes that financial performance of institutions is contingent upon factors such as innovation, organizational culture, and accounting information system. While, institutional theory as proposed by Martinez and Dacin (1999) assumes that for organizations to live longer and improve on financial performance, they should obey and accept the ways they work together with their cultural environments through creating change and adopting organizational mission.

Numerous studies demonstrated the direct association of organizational culture defined as the organization's expectations and values that enable a member change his or her behavior in terms of inner workings, and interactions with the environment on financial performance (Joseph & Kibera 2019; Shanak et al. 2017; Abbas 2017).

However, these studies do not show the mechanisms through which organizational culture influences financial performance, and without such, the relationship remains partial and un explained. Baron and Kenny (1986) advocated for a third process variable to explain the relationship between the independent variable, and dependent variable. In line with his argument, Aldegis (2018), and Kwarteng and Aveh (2018) suggested accounting information system which means a process of integrating the computerized sub-systems with the view of transacting data, and processing financial information as mediation variable or factor to account for this hypothesized relationship as it has previously been found a significant mediator in other studies. Numerous studies that relate to organizational culture, accounting information system and financial performance has been conducted in countries like India, China, Indonesia, Nigeria, and Kenya with the except for Bukenya (2014) who studied the influence of quality of accounting information and financial performance in Uganda's public sector. Therefore, basing on this existing knowledge gap, the current study sought to establish the mediating effect of accounting information system in the relationship between organizational culture and financial performance to bridge the gaps in the existing literature.

1.2 Statement of the Problem

Financial institutions in Uganda continue to encounter declining financial performance (Kanakriyah 2019). Despite numerous interventions put in place like embracing digitalization, channel optimization, enhancing mobile banking and commercialization of agent banking, this problem persists (ABM 2018; *UBOS* 2018). This is evidenced by the increasing non-performing loans that led to collapse and liquidation of banks especially Uganda Corporative Bank, Greenland Bank, and International Credit Bank between 1990s to 2000 with Crane Bank in 2016. In a similar situation, Centenary Bank report (2018) , revealed that the entity's return on assets (ROA) reduced from 5.1% in 2016 to 3.7% in 2018 and return on equity (ROE) declined from 19.2% to 17.9% between 2017 to 2018. Consistently, DFCU report of (2018) highlighted that the bank's net profits reduced by 14.3% from 41.6 billion to UGX 35.7 billion, deposits fell by 1.5% from UGX 2.02 trillion to UGX 1.99 trillion, lending dropped by 3.8% from Ugx 1.4 trillion to UGX 1.36 trillion, and the assets reduced by 2.7% from UGX 3.03 trillion to UGX 2.95 trillion. This therefore, warrants further investigation.

1.3 General Objective

The general objective of the study was to establish the mediating effect of accounting information system in the relationship between organizational culture and financial performance of financial institutions.

1.4 Specific Objectives

The study was guided by the following specific objectives:

i. To examine the relationship between organizational culture and financial performance of financial institutions.

ii. To examine the relationship between organizational culture and accounting information system of financial institutions.

iii. To examine the relationship between accounting information system and financial performance of financial institutions.

iv. To establish the mediating effect of accounting information system in the relationship between organizational culture, and financial performance of financial institutions.

1.5 Research Hypothesis

H_1: Organizational culture is positively and significantly related to financial performance.

H_2: Organizational culture is positively and significantly associated with accounting information system.

H_3: Accounting information system is positively and significantly related to financial performance.

H_4: Accounting information system mediates the relationship between organizational culture and financial performance.

1.6.0 Scope of the Study

1.6.1 Geographical Scope

The study was conducted across the 35 financial institutions in Uganda. This is because, they are registered and regulated by Bank of Uganda.

1.6.2 Time Scope

The study was conducted within the period of four years ranging from 2016 to 2019. This is because it was the period when we experienced a high level of declining financial performance in financial institutions (BOU 2019).

16.3 Content Scope

The study was underpinned by Accounting Information System (Integration, Flexibility, and Timeliness) as a mediation variable on the relationship between Organizational Culture (Adaptability, Involvement, Mission) and Financial Performance.

1.7 Significance of the Study

The findings were of benefit to:

Financial Institutions: the research will enable the managers of financial institutions to understand the culture of their employees in the organization, and device mechanism of incorporating them in management as a bench mark for assessing their financial performance.

Banking Community: it will enable the banking community to understand the culture that bears efficiency and effectiveness and later build trust in their accounting information systems.

Policy Makers/Government: the research will guide policy makers in formulating policies to inform improvements in their financial performance.

Academia: it will contribute to the new body of knowledge on financial performance of financial institutions through discovering new ideas and gaps to be researched further.

1.8 Conceptual Framework

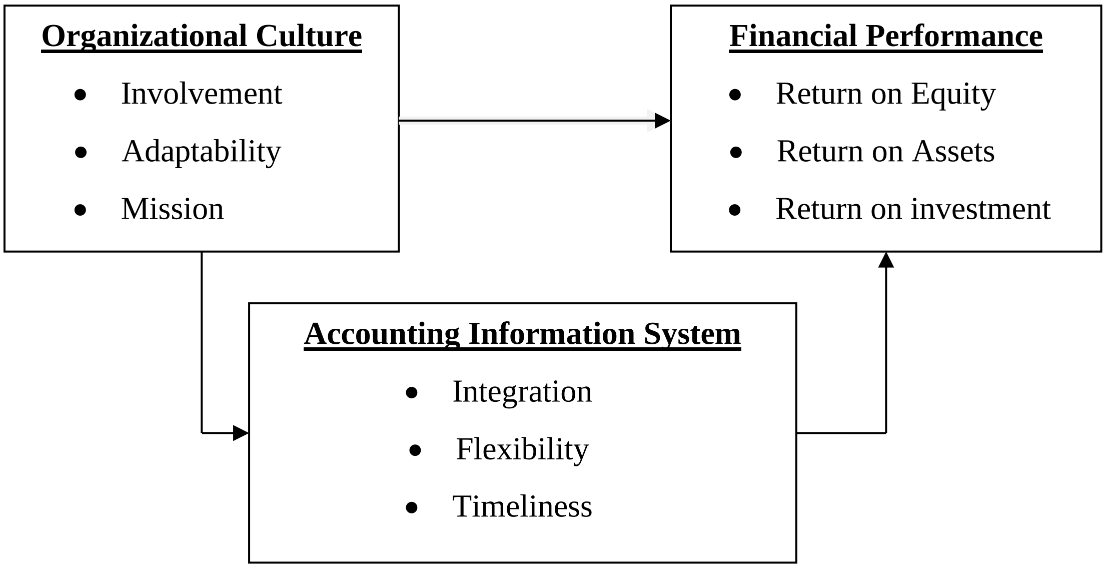

Figure 1.1: *Conceptual Framework*

Source: Fey and Denison (2003)**,** Yilmaz and Ergun (2008)**,** *Rapina (2019)***,** *Kwarteng and Aveh (2018)*

Explanation of the Conceptual Framework

The frame work above shows that financial performance dependents on organizational culture, and accounting information system. It also indicates that organizational culture through involvement, adaptability, and mission has a positive relationship with financial performance while accounting information system underpinned by the dimensions of integration, flexibility, and timeliness mediate the organizational culture - financial performance relationship. The dimensions used in this framework have been used in previous studies supported by literature, and produced robust results.

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