CHIEF EXECUTIVE OFFICER POWER, BANK RISK AND CORPORATE GOVERNANCE: DOES BOARD INDEPENDENCE MATTER?

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Abstract

Corporate governance failures in the financial sector have highlighted the need to strengthen the role played by boards of directors in supporting the actions and decisions of chief executive officers (CEOs) (Zulfikar et al., 2020). Against this background, this study examines the moderating role of board independence in the relationship between CEO power and bank risk, as a corporate governance mechanism. Applying the system generalised method of moments (GMM) model on the secondary data of 14 listed and unlisted commercial banks in Uganda from 2010 to 2020, we found that the moderating effect of board independence in the relationship between CEO power and bank risk was positive and significant for prestige power and the CEO being internally hired. Further, it was established that bank CEOs should serve for between four and seven years to reduce or contain bank risk, as this period has been noted to be adequate to oversee operations without increasing institutional risk. Our findings imply that commercial banks in Uganda should appoint strong independent boards of directors that can support the CEO's strategy, as their presence positively impacts the relationship between CEO power and bank risk. Our paper thus contributes to the board governance debate in scholarly literature.

Keywords: Corporate Governance, Bank Risk, Board of Directors, Commercial Banks, Agency Theory, Moderating Effect, CEO Power

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1. INTRODUCTION

Risk management has dominated bank management literature and discourse, policy, and practice as it is at the core of several bank decisions, whether liquidity, operations, credit, or solvency-related. Among the many contributors to the global financial crisis of 2008, the Asian financial crisis of 1998, and the economic recessions that followed, was excessive risk-taking by banks under the management of chief executive officers (CEOs) with varying levels of power (Gontarek & Belghitar, 2021). CEO power in this study includes structural power, ownership power, expert power, prestige power, the CEO being a former executive, and the CEO being a founder member of the bank.

Previous studies on how CEO power affects risk-taking have produced mixed results. Some studies show that CEO power reduces risk (Fernandes et al., 2021; Fang et al., 2020), while others indicate that it increases risk (Altunbaş et al., 2020; Hunjra et al., 2020). The mixed findings in these studies and their failure to give conclusive remedies could result from the studies' focus on the direct relationship between CEO power and risk while overlooking the possibility that the ability of CEO power to influence risk in a bank could be moderated by board independence.

Although Uganda has primarily enjoyed political, macroeconomic, social, and technological stability over the last 30 years, the banking industry has suffered turbulence. There have been several bank closures over those 30 years. In policy, the Financial Institutions Act, 2004, of Uganda, amended in 2016, is still silent on matters pertaining to managing or utilising CEO power regarding risk levels of banks. The capital markets corporate governance guidelines mention directors' independence but do not guide how it affects the relationship between CEO power and banks' risk-taking. The same is missing in Table F of Uganda's Companies Act, 2012, which deals with the code of corporate governance boards and directors. A glimpse at the bank practices, as reflected in their risk management reports, shows that the role of board independence in regulating the effect of CEO power on bank risk is ignored.

In line with the agency theory (Fama & Jensen, 1983), it is posited in this study that the relationship between CEO power and bank risk can be regulated or moderated by board independence. Risk-taking is suitable for a bank if innovation is to take place. However, the ability of the CEO to use their power to escalate the risk-taking exposure of a bank has to be regulated since excessive risk-taking can lead to the collapse of a bank (Koutoupis & Malisiovas, 2023). The research question we seek to answer is:

RQ: What is the moderating effect of board independence on chief executive officer power and bank risk?

Therefore, this paper's main purpose is to provide evidence that underpins the critical role played by an independent board of directors within banks and other financial institutions as a corporate governance mechanism to limit excessive CEO power. The significance is that our results reinforce the need for boards to intervene in CEO decisions insofar as risk-taking in banks is concerned.

The remainder of this study is structured as follows. Section 2 reviews the theoretical and empirical literature. Section 3 reflects the adopted methodology, while Section 4 captures and discusses the results. Section 5 ends the paper with a conclusion and recommendations.

2. LITERATURE REVIEW

Various theories have been applied to explain the dimensions of CEO power and the role of an independent board in bank performance. The two fundamental theories underpinning CEO power are the upper echelons theory (Herman & Smith, 2015; Hambrick & Mason, 1984) and the agency theory (Berle & Means, 1932; Jensen & Meckling, 1976; Fama & Jensen, 1983). Background theories include stewardship theory (Donaldson & Davis, 1991), resource-based theory (Wernerfelt, 1984; Penrose, 1959) and the social network theory (Saidu, 2019).

Regarding risk, frameworks and theories include portfolio theory/model, contracting model, regulatory hypothesis theory, risk balancing hypothesis and the managerial overconfidence hypothesis. These theories underpin the various risks faced by a bank, including liquidity risk, market risk, credit risk, operational/transactional risk, external business risk, legal and regulatory risk, liquidity risk, foreign exchange risk, interest rate risk, counterparty risk, reputation risk, fraud risk, strategic risk, technology risk, off-balance sheet risk, governance risk and solvency risk.

The board of directors plays an instrumental role in managing risk in a bank (Malik, 2024; AlHares & AlBaker, 2023; Otman, 2021). Moreover, Abou-El-Sood (2021) argues that boards of directors are responsible for assessing a bank's risk appetite, and ensuring that management, including the CEO, does not expose the bank to higher than necessary operational risk. In a study of banks in Pakistan, Ishtiaq (2015) points out that one of the risk management guidelines imposed by the State Bank of Pakistan (SBP) is that the risk exposures of the bank should be within the limits set by the board of directors and that all the risk-taking decisions must be aligned with the objectives and business strategies established by the board of directors. However, there are mixed findings regarding the effect of independent directors on bank risk. As Hunjra et al. (2020) argue, board independence has a significant negative effect on bank risk-taking. An increase in board independence leads to decreased bank portfolio risk, favourable increases in bank capitalisation and more prudent bank risk-taking (Degl'Innocenti et al., 2023; Vallascas et al., 2017). Independent directors were found to act in the interests of shareholders. When the agency conflicts between bondholders and shareholders intensify, independent directors will make decisions that favour shareholders, hence reducing shareholders' perceived and actual risk. However, some studies found that independent outsiders on a board do not appear to protect the firm from agency costs and that there is no significant relationship between board independence and firm performance (Rashid, 2018). In addition, Kyei et al. (2022) found that bank risk is negatively correlated with independent directors, in their assessment of corporate governance and risk in 635 banks spread across 48 African countries. Independent directors set corporate policies that increase credit and firm risks (Koutoupis & Malisiovas, 2023). This could be because when a CEO is so powerful, they may overrule the decisions of the independent directors. The board's access to risk-based information is restricted by unrestrained CEO power, reducing independent decision-making (Fama & Jensen, 1983; Gontarek & Belghitar, 2021).

Regarding the various dimensions of CEO power, structural power comes from a CEO holding a high position in the organisation's hierarchy, having many positions and titles. It also arises when one holds both the title of CEO and that of board chairman, culminating in CEO/chair duality (Hemdan et al., 2021). When a CEO has power from the many titles they hold, they may either increase the risk of a bank or reduce it. Where structural power is high, one may take on several projects without caution from subordinates who may already be intimidated by the titles. However, with an independent board, independent directors will continuously monitor the extent to which such a CEO takes on risky projects.

A CEO who is also a shareholder will take on more risk because of the need to expand the bank and the confidence that ownership power gives him/her. The higher the percentage of shares one holds, the more power such an individual has (Hamidlal & Harymawan, 2021). Conversely, a CEO with ownership in the bank may be risk averse and not take on risky projects since they fear that the bank may go bankrupt. CEO ownership power can be regulated by a strong board which holds him/her accountable for performance (Kim & Lu, 2011).

Expert power is where a CEO exhibits extraordinary knowledge of the tasks done and decision-making and is considered to be an expert (Bedford et al., 2023). The experience and knowledge of a CEO are a source of their power. Where a CEO has worked in different industries, companies and organisations, they possess much experience, and this can benefit the bank (Li & Patel, 2019). An expert CEO is an advantage to the bank since they understand the business well and have the requisite experience. However, the overconfidence it gives the CEO may lead them to recklessly implement perilous ventures, exposing the bank to excessive risk. A study of 67 firms in Kenya from 2010–2017 found that board independence negatively and significantly affects the relationship between CEO tenure and risk (Tarus, 2020).

Prestige power arises out of personal status, respect, admiration accorded to the person, reputation and connections, and other people's perception of that person's influence through contacts and qualifications. The reputation one has acquired in the office, positive perceptions that he/she has, and relationships with external parties like the government and other influential people, coupled with an excellent educational background, reflect that person's power (Saidu, 2019; Fetscherin, 2015). Such a person will wield a lot of power. Where there are independent directors on the board, they will put the success of the bank first and will quickly notice the prestige that the CEO holds. They will monitor, advise, or even reject some of the CEO's approaches towards implementing risky projects, affecting the effect of his prestige power on the risk of the bank.

A CEO, being a former executive, is another source of power. The resource-based view encourages firms to depend on their internal resources to improve performance. One of the executives can be promoted to the position of CEO. A CEO who was a former executive of a bank commands more respect than one who was not. Such a person will be knowledgeable about the bank and all its operations. Such a CEO, if ambitious, will want to take on new projects to prove that they are better than the previous one to whom they were a subordinate. In such cases, if the CEO is reckless, they will increase the risk exposure of the bank. Where one is more cautious, they may reduce the risk exposure of the bank. In both circumstances, since risk is inevitable in a bank, especially since it has both costs and benefits (Danaan, 2018), an independent board will advise or even override the CEO's decision while taking on risky ventures.

CEO being a founder member is another source of power. It is common for entrepreneurs to start firms and become managers thereof. When a founder member becomes CEO, they attain more power (Hemdan et al., 2021). Founder members hold a lot of respect since they are the brains behind

a venture. Tang et al. (2015) assert that founder CEOs are more likely to be susceptible to cognitive biases like overconfidence. This overconfidence will lead to high risk-taking. However, the independent board members will advise and preside over the CEO's exerting founding member power to increase the bank's risk.

More recent studies by Khoza et al. (2024) and Lee and Tulcanaza-Prieto (2024) confirmed the importance of adopting the correct variables to measure aspects of corporate governance about boards of directors, particularly in financial institutions. Khoza et al. (2024) and Lee and Tulcanaza-Prieto (2024) highlight the critical role of board structure as reflected in the board's composition of independent non-executive directors *vis-à-vis* the executive directors. A higher number of independent directors is preferred as this reduces agency costs by keeping CEO power in check and thus further reducing bank risk.

Given the several mixed findings regarding CEO power and firm risk generally and CEO power and banks risk in particular, none has pointed to the moderating role of board independence in this relationship. Assessing the moderating role of board independence in this relationship could lead to a more conclusive position.

3. RESEARCH METHODOLOGY

3.1. Data and sample

This paper aims to establish the moderating effect of board independence on the relationship between CEO power and bank risk in commercial banks in Uganda from 2010 to 2020. Initially, a total of 25 commercial banks were targeted. However, after screening, the sample was 14 commercial banks with complete information for the period under assessment. The study period ends in 2020, as after this time, the global economy suffered from the effects of the COVID-19 pandemic. The actions of board independence and CEO power on bank risk and corporate governance would not have adequately filtered through to be captured in the various reports from which we sourced our data. Similarly, applying a structural break to the data after 2020 would not have given a true reflection, as the post-event period was deemed too short. As such, our study used a balanced panel with 140 data points. Data was sourced from the individual banks' annual reports and other publicly available print and electronic documents.

3.2. Measurement of variables

The independent variable of the study was CEO power (*CEOP*). Its data was collected on structural power (*STRP*), ownership power (*OWNP*), expert power (*EXPP*), prestige power (*PREP*), the CEO being a former executive (*CFEP*) of that bank and the founder CEO (*CFOP*). *STRP* was measured based on CEO duality (Saidu, 2019). *OWNP* was measured using the CEO's shareholding percentage (Saidu, 2019). *EXPP* was measured using CEO tenure (Saidu, 2019). *PREP* was binary where a code of "1" was given if the CEO also holds other directorships and "0" otherwise (Saidu, 2019). *CFEP* was coded "1" if the CEO was an executive before appointment as CEO, and "0" otherwise (Pathan, 2009). *CFOP* was binary coded "1" if the CEO is also a founder

member and "0" otherwise (Cormier et al., 2016). The moderating variable was board independence (*BINP*), which was measured as the proportion of independent directors on the bank's board of directors (Ramly & Nordin, 2018). The dependent variable was bank risk (*BR*), measured using the *Z-SCORE*, which shows bank stability (Hua et al., 2019). A high *Z-SCORE* indicates less risk and more stability for a bank (Berger et al., 2016). Control variables are included to normalise the results for better and more reliable inference. They include bank size (*BKSZ*), listing status (*LSST*), gross domestic product (GDP) growth (*GDPG*), non-performing loans (*NPL*) and unemployment (*UNEMPL*). *BKSZ* was measured as the logarithm of total bank assets (Ramly & Nordin, 2018). *LSST* was coded as one for a listed bank, otherwise zero. *GDPG* was measured by the *GDPG* for the year *t* rate, which is measured relative to last year's GDP (Ernazarov et al., 2020). NPLs were measured by the absolute figure of NPLs as stated in the financial statements of the respective commercial banks and are labelled as "non-performing loans" (Mazreku et al., 2018).

3.3. Model specification

In order to measure the moderating effect of *BINP* on the relationship between *CEOP* and *BR*, Eq. (1) below was estimated to illustrate this effect:

$$BR_{it} = \beta_0 + \beta_1 CEOP_{it} + \beta_2 BINP_{it} + \beta_3(CEOP_{it} * BINP_{it}) + \pi x_{it-1} + D_{1t} + \varepsilon_{1i} \quad (1)$$

where,
- $BINP_{it}$ represents board independence, which implies the percentage or share of outside directors;
- BR_{it} is the dependent variable, which measures the risk-taking of the bank i in period t;
- $CEOP_{it}$ represents an index of *CEOP* obtained using principal component analysis from the six proxies of *CEOP: STRP, OWNP, EXPP, PREP, CFEP* and *CFOP*;
- x_{it-1} is a vector of other bank-specific characteristics commonly employed in the *BR* literature, including *BKSZ, LSST, GDPG, NPL* and *UNEMPL*;
- D_t is a dummy variable meant to capture any structural breaks in the model;
- ε_{it} is the error term.

Moderation will occur when the relationship between *CEOP* and *BR* depends on *BINP*. In this regard, *BINP* in Model 1 is referred to as the moderator variable or simply the moderator (Hayes, 2013). To test the hypotheses regarding moderation, the direct effect of *CEOP* on *BR* was determined, and the significance of the results was determined. Following Kouki and Guiziani (2015) and Baron and Kenny (1986), the moderating effect is observed when a moderating variable (*BINP*) alters the form and strength of the relationship between the independent variable (*CEOP*) and dependent variable *BR*.

In summary, three relations were established: the influence of *CEOP* on *BR* (β_1); the influence of *BINP* on *BR* (β_2) and the influence of *CEOP* and *BINP* on *BR* (β_3) as specified in Eq. (1).

Equation (1) was extended to capture the interaction terms for each construct comprising *CEOP*. As such, Eqs. (2) to (7) were estimated as follows:

$$BR_{it} = \beta_{01} + \beta_{11}STRP_{it} + \beta_{12}BINP_{it} + \beta_{13}(STRP_{it} * BINP_{it}) + \pi_1 x_{it-1} + D_{11t} + \varepsilon_{11i} \quad (2)$$

$$BR_{it} = \beta_{02} + \beta_{12}OWNP_{it} + \beta_{23}BINP_{it} + \beta_{23}(OWN_{it} * BINP_{it}) + \pi_2 x_{it-1} + D_{21t} + \varepsilon_{21i} \quad (3)$$

$$BR_{it} = \beta_{03} + \beta_{13}EXPP_{it} + \beta_{24}BINP_{it} + \beta_{33}(EXPP_{it} * BINP_{it}) + \pi_3 x_{it-1} + D_{31t} + \varepsilon_{31i} \quad (4)$$

$$BR_{it} = \beta_{04} + \beta_{14}PREP_{it} + \beta_{25}BINP_{it} + \beta_{34}(PREP_{it} * BINP_{it}) + \pi_4 x_{it-1} + D_{41t} + \varepsilon_{41i} \quad (5)$$

$$BR_{it} = \beta_{05} + \beta_{15}CFEP_{it} + \beta_{26}BINP_{it} + \beta_{35}(CFEP_{it} * BINP_{it}) + \pi_5 x_{it-1} + D_{51t} + \varepsilon_{51i} \quad (6)$$

$$BR_{it} = \beta_{06} + \beta_{16}CFOP_{it} + \beta_{27}BINP_{it} + \beta_{36}(CFOP_{it} * BINP_{it}) + \pi_6 x_{it-1} + D_{61t} + \varepsilon_{61i} \quad (7)$$

where,
- *STRP* represents structural power;
- *OWNP* stands for ownership power;
- *EXPP* is the expert power;
- *PREP* is the prestige power;
- *CFEP* stands for whether the CEO is a former executive;
- *CFOP* represents whether the CEO is the founder.

If the moderator variable, *BINP*, interacts with the independent variable, *CEOP*, and the respective constructs, then the regression coefficients β_3, β_{13}, β_{23}, β_{33}, β_{34}, β_{35}, and β_{36} of the interactive variables *CEOP*$_{it}$ * *BINP*$_{it}$, *STRP*$_{it}$ * *BINP*$_{it}$, *OWNP*$_{it}$ * *BINP*$_{it}$, *EXPP*$_{it}$ * *BINP*$_{it}$, *PREP*$_{it}$ * *BINP*$_{it}$, *CFEP*$_{it}$ * *BINP*$_{it}$, *CFOP*$_{it}$ * *BINP*$_{it}$ in the above model will prove significant (Ngware et al., 2020). Although this study used interaction to measure the mediation effect, larger samples can apply the Sobel test or bootstrapping using the Hayes process macro to analyse the moderation effect between the independent and dependent variables under study, as Abu-Bader and Jones (2021) suggested.

4. RESEARCH RESULTS AND DISCUSSION

4.1. Descriptive statistics

Table 1 presents the summarised statistics for the variables resulting from the pooled estimations.

Table 1 shows that *BR*, as measured by the *Z-SCORE*, was at an average of 15.34. A bank with a high *Z-SCORE* is unlikely to default and is therefore seen as having low risk. Using this figure alone is insufficient to conclude whether banks in Uganda have a high or low risk since the *Z-SCORE* can be interpreted relatively and not absolutely. However, the table also shows that banks in Uganda had a *Z-SCORE* with a minimum of 0.06 and a maximum of 39.68 over the research period. This implies that the level of risk in commercial banks in Uganda varies tremendously among banks and is not the same, with a range of 39.62 and a standard deviation of 11.97.

Table 1. Summary statistics for variables used in the pooled estimation (2010–2020)

Variables	Obs.	Mean	Std. dev.	Minimum	Maximum
Z-SCORE	154	15.34	11.97	0.06	39.68
BINP	154	0.66	0.13	0.20	0.86
OWNP	154	0.00000227	0.0000104	0.00	0.00005
EXPP	154	3.59	2.78	0.70	14.00
PREP	154	0.23	0.42	0.00	1.00
CFEP	154	0.28	0.45	0.00	1.00
STRP	154	0.00	0.00	0.00	0.00
CFOP	154	0.00	0.00	0.00	0.00
CEOP	154	0.4	0.49	0.00	1.00
CEOP_INDEX	154	- 0.00	1.14	-3.76	2.42
BKSZ	154	27.18	1.23	23.06	29.32
LSST	154	0.45	0.50	0.00	1.00
GDPG	154	5.09	1.78	3.00	9.40
NPL	154	27,400,000,000	36,700,000,000	0	219,000,000,000
UNEMPL	154	2.44	0.72	1.91	3.59

Note: These are raw data derivations before transformation. Z-SCORE is a proxy for BR.
Source: Authors' computations.

Regarding *BINP*, the average was 0.66, with a standard deviation of 0.13. Since the average is above 0.5, it implies that there are more independent board members on the boards of directors of commercial banks studied over the study period, with an average of 66%, implying strong boards (Fang et al., 2020). However, the results also show a minimum fraction of independent board members as 0.2 and a maximum of 0.86. This implies that for some commercial banks, there are only 20% independent directors on the board, which is a weakness in the supervisory roles of such boards.

OWNP by CEOs was low, as shown by the percentage of shareholding by the CEOs of those banks and on average, CEOs held 0.00227% of the shares in the bank with a standard deviation of 0.00104%, a minimum of 0% and a maximum of 0.005%. There are banks where the CEO has no shareholding, and so has little power. For those few CEOs with a small fraction of shareholding, their power is more than those who have none. This confirms assertions by Baker et al. (2019) that CEO share ownership is one of the sources of the power of CEOs, which has a negative influence on agency costs and that a CEO who owns shares commands respect as one of the owners of the company.

Regarding *EXPP* indicated by CEO tenure, on average, most CEOs have spent 3.59 years as CEOs, with a standard deviation of 2.78 years. The minimum number of years is 0.70 years, which is less than a year, while the maximum is 14 years. A maximum of 14 years but an average of 3.59 years implies that the *EXPP* is taken to be less than seven years, which is half of the maximum. This means that CEO *EXPP* is low and does not change by a large margin, as shown by a standard deviation of only 2.78 years. This further confirms the findings of Byrd et al. (2010), who found that the tenure of bank CEOs was between three and six years. The *EXPP* of CEOs of commercial banks in Uganda at an average of 3.59 years of CEO tenure is considered average compared to others in Africa. For instance, after a study in Nigeria, Josephine et al. (2022) found that an average of 1.57 years of CEO tenure is short, while an average of 5.52 years of CEO tenure is long.

Focusing on *PREP* as a source of *CEOP*, this was at an average of 0.23 with a standard deviation of 0.42. This considered CEO holding directorships in other firms as a source of their power. With a minimum of 0 and a maximum of 1, half of this is 0.5. For CEOs of commercial banks in Uganda,

the mean is 0.23, which is relatively low. This implies that these CEOs do not derive much power from other directorships. However, the few who have other directorships have more power than those who do not have.

Table 1 further shows that the *CFEP* had a mean of 0.28 and a standard deviation of 0.45. The minimum was 0, while the maximum was 1.00. An internally hired CEO wields more power than one brought in from outside the bank. In Uganda, only 28% of the CEOs are hired externally. This implies that *CEOP* is slightly low since it is below 0.5. This confirms the findings by Agrawal et al. (2006), who found that firms will always opt for insiders to take on CEO positions, although this is at a low rate among commercial banks in Uganda. From Table 1, *STRP* and CEO being a *CFOP* were presumed to be variables at the commencement of the study but were found not to be variables based on the fact that they did not change or vary within the banks and across all the years under observation.

CEOP gave a minimum of 0.00 when the *CEOP* index was lower than the medium *CEOP* index and a maximum of 1.00 when the *CEOP* index was higher than the median *CEOP* index of a particular bank. The CEO power index (*CEOP_INDEX*) was determined after a principal component analysis of the variables. From the table, the average *CEOP* is 0.4, which is moderate. This implies that the CEOs of commercial banks in Uganda have moderate power.

Regarding control variables, the average *BKSZ* was 27.18, with a minimum of 23.06 and a maximum of 29.32. The variations among banks regarding size, as shown by the standard deviation of 1.23, were minor. This means that most banks are almost the same size and, therefore, can be reasonably compared. The *LSST* of commercial banks in Uganda is moderately low, with an average of 0.45. This implies that, on average, 45% of the commercial banks are listed. Getting listed opens a firm up for scrutiny by the Uganda Securities Exchange, the Capital Markets Authority of Uganda, and the public. *GDPG* in Uganda has been on an average of 5.09% for the years of the study period, with a minimum of 3.0% and a maximum of 9.40. Uganda's average *GDPG* rate during the study period was high, given that the East African *GDPG* for 2020 was 0.4% (African Development Bank, 2021). This implies the potential for an increase in banking activity due to increased demand for financial services like savings and credit. *NPL* for the commercial banks averaged at UGX 27,400,000,000 with a minimum of UGX 0 and

a maximum of UGX 219,000,000,000. This implies that the level at which banks are cautious towards lending and the efforts made to recover the money lent out differ. The extent of loan default rate widely differs given range and, as shown by the standard deviation. The *UNEMPL* rate was at an average of 2.44%, with a minimum of 1.91% and a maximum of 3.59%. A higher level of employment in an economy would increase the demand for banking services since people would have the income to save.

Employed people also have the opportunity to get salary loans. This has an impact on a bank's loan default risk.

4.2. Correlation results

Bivariate correlation was done to measure the strength and direction of the linear association between the variables. The Pearson correlation coefficient results are shown in Table 2 below:

Table 2. Correlation matrix

Variables	Z-SCORE	CEOP	BINP	CFEP	EXPP	GDPG	LSST	NPL	OWNP	PREP	UNEMPL	BKSZ
Z-SCORE	1.000											
CEOP	0.034*	1.000										
BINP	-0.206**	0.131*	1.000									
CFEP	0.052*	0.117*	0.095*	1.000								
EXPP	0.139**	0.472***	0.043*	0.052*	1.000							
GDPG	-0.008*	-0.090*	0.008*	0.013*	-0.084*	1.000						
LSST	0.096**	-0.062*	-0.291***	0.050*	0.045*	0.038**	1.000					
NPL	0.021*	0.058*	-0.090*	0.209***	0.255***	-0.161**	0.093*	1.000				
OWNP	0.360***	-0.177**	-0.271***	-0.136*	-0.137**	-0.036**	0.242***	-0.021*	1.000			
PREP	0.339***	0.337*	0.030*	0.067*	0.063*	-0.027*	-0.097*	0.037*	-0.121*	1.000		
UNEMPL	-0.043*	-0.233***	-0.094*	-0.038*	-0.159**	0.272***	0.179**	-0.227***	-0.121*	-0.084*	1.000	
BKSZ	0.102*	0.194**	-0.268***	0.187**	0.441***	-0.118*	0.399***	0.505***	0.158**	0.139**	-0.238***	1.000

*Note: * significant at 10%; ** significant at 5%; *** significant at 1%.*
Source: Authors' computations.

There was a positive relationship between *OWNP* and *Z-SCORE* (r = 0.36), indicating that the more a CEO owns shares in the bank, the less risky the decisions they will make. Hence, the bank will experience less risk. This is probably because the CEO's share ownership creates a sense of cautiousness, care, and concern for the bank's survival. Pathan (2009) found that CEO ownership is negatively related to systematic risk. There is a positive relationship between *EXPP* and *Z-SCORE* (r = 0.139), indicating that the more experienced the CEO, the lower the *BR* because experience as a CEO leads to more caution when making decisions. The findings are in agreement with those of Hemdan et al. (2021) that an experienced CEO can deal with environmental dependency, has learnt the dynamics of running a bank in Uganda, has cognitive work experience gained with time and can deal with critical contingencies, hence exposing the bank to less risk. However, these findings contradict the managerial entrenchment theory, which considers long-serving managers as becoming entrenched and following personal and not organisational interests.

Regarding *PREP*, there was a positive relationship between *PREP* and *Z-SCORE* (r = 0.339). This indicated that the more prestigious a bank CEO is, either through his/her connections, education or directorships in other firms, the lower the respective *BR*. A CEO with connections and other directorships, relationships with external parties like government and other influential people, and an excellent educational background can consult on decisions and have reference points guiding them in decision making. That CEO will want to please the members of those other networks that he/she is successful and can manage a bank and keep it solvent.

CFEP of the respective bank was found to have a positive relationship with *Z-SCORE* (r = 0.052), indicating that commercial banks in Uganda whose CEOs were former employees before being appointed into CEO positions have low *BR*. These findings justify the resource-based theory's assertion that the valuable resources a firm has access to, like employees and managers, if deployed well as vital intellectual capital, can improve that

firm's competitive advantage (Daryaee et al., 2011). A person promoted to the CEO position from within the bank with an interest in the bank's growth and knowledge of the bank's internal and external operating environments will reduce the bank's risk exposure. Such CEOs are usually familiar with board members and other bank employees and would easily lead the team to making and implementing prudent decisions in the bank's interest.

CEOP had a positive relationship with *Z-SCORE* (r = 0.034). This indicated that the more power a CEO has, the lower the bank's risk. This is because when a CEO is powerful, he/she will have confidence in making quick decisions and can deploy human and financial resources to ensure that the bank runs successfully and remains solvent, reducing risk.

There was a negative relationship between *BINP* and *Z-SCORE* (r = -0.206). This indicated that a small proportion of independent board members would reduce the *Z-SCORE* and accordingly increase *BR*. The possible explanation is that the fewer independent directors, the lower the supervision capability of the board, hence allowing for more risk-taking behaviour from the CEO. This confirms agency theory, which asserts that an independent board aims to reduce the risk exposure of firms and, hence, the bank.

Regarding control variables, there was a positive relationship between *BKSZ* and *Z-SCORE* (r = 0.102). This indicated that as commercial banks expand, *BR* lowers. This is because when banks expand, their resilience increases and their large asset base and liquidity increase, which makes it possible for them to reduce unnecessary expansion, investment and lending out money. *LSST* had a positive relationship with *Z-SCORE* (r = 0.096). This indicates that *BR* reduces when a bank gets listed since public confidence and scrutiny increase. A negative relationship existed between *GDPG* and *Z-SCORE* (r = -0.008). A low *GDPG* rate would increase *Z-SCORE* and decrease *BR*. The possible explanation is that when *GDPG* reduces, there is a recession and slowdown in economic activity, and the goods and services produced in the country reduce, hence low borrowing and low risk. There was

a positive relationship between *NPLs* and *Z-SCORE* (r = 0.021). This indicated that when *NPLs* increase, *BR* decreases. The possible explanation is that as more people start to pay back their loans, the bank's exposure to credit risk and default risk reduces, and so does the threat of insolvency. The results in Table 2 further reveal a negative relationship between *UNEMPL* and *Z-SCORE* (r = -0.043). This indicated that when *UNEMPL* increases, the *Z-SCORE* reduces, and *BR* increases. The possible explanation is that as more people stop working, they cannot access credit and salary-secured loans, which they would have paid back if they had jobs. As a result of this, banks will perceive a higher risk and lend less to individuals because of the increase in the possibility of borrowers defaulting on their loans. The risk of lending to the unemployed increases as the number of unemployed customers increases.

4.3. Moderated regression results

In order to establish the moderating effect of *BINP* on the relationship between *CEOP* and *BR*, the study used the System generalised method of moments (GMM) estimator upgraded by Arellano and Bond (1991) into the difference GMM estimator. GMM data analysis approach addresses potential endogeneity, heteroscedasticity, and autocorrelation problems. It is also applicable where data is dynamic, such as in the case of the dynamic nature of *BR*-taking activities that vary over time (Moudud-UI-Huq et al., 2018). This estimator takes advantage of a group of lagged explanatory variables as instruments for the corresponding variables in the difference equation. However, the main drawback of the different GMM estimators is their inability to detect the problem of weak instrumental variables. Therefore, Arellano and Bover (1995) proposed a more efficient estimator, the system GMM estimator comprising both the original level equation and the transformed difference equation.

Before determining the moderating effect using the system GMM, the Hausman test was used to determine whether the fixed effects or random effects model was appropriate. The Hausman test returned a p-value of 0.000, which was less than 0.05, implying that the fixed effects model was the most appropriate one to apply in this case. Therefore, the fixed effects regression model was adopted to measure the moderating effect of *BINP* in the relationship between *CEOP* and *BR* among commercial banks in Uganda.

The regression results for the moderating effects of *BINP* on the relationship between *CEOP* and *BR* under the GMM estimator are contained in Models 1 to 4 of Table 3. Four interaction variables (*PREP * BINP*, *CFEP * BINP*, *EXPP * BINP* and *OWNP * BINP*) were tested using the stepwise regression approach. The empirical findings are presented in Table 3 below.

Table 3. System GMM results on the direct effect of explanatory, control and moderation variables

Variables	Z-SCORE			
Model (2-step system GMM)	Model 1	Model 2	Model 3	Model 4
Z-SCORE	0.233*	0.0555	0.263	0.265**
	(0.0957)	(0.154)	(0.138)	(0.102)
PREP*BINP	2.668*			
	(1.357)			
CFEP*BINP		-11.35**		
		(3.856)		
EXPP*BINP			1.585	
			(1.175)	
OWNP*BINP				112138.8
				(151727.9)
CEOP	-2.869*	-1.055	-4.472	-2.407
	(1.266)	(1.038)	(2.977)	(1.486)
BINP	1.341	31.80*	2.542	0.606
	(2.932)	(12.62)	(3.247)	(2.739)
NPL	-2.05	-1.36	7.14*	1.49
	(1.47)	(2.03)	(3.46)	(1.25)
GDPG	0.133***	-0.00815	0.309**	0.212***
	(0.0301)	(0.0826)	(0.107)	(0.0430)
UNEMPL	0.743*	1.240***	0.993*	0.936***
	(0.341)	(0.329)	(0.470)	(0.260)
BKSZ	2.134*	0.825	-0.917	1.574*
	(1.024)	(0.574)	(0.863)	(0.677)
LSST	-2.410*	-3.910*	-4.245	-3.085*
	(1.133)	(1.966)	(2.409)	(1.438)
N	126	126	126	126

*Note: PREP * BINP is an interaction term of prestige power and board independence, CFEP * BINP interaction between the CEO being a former executive, the CEO being internally hired and board independence, EXPP * BINP is the interaction of expert power and board independence, OWNP * BINP is the interaction between ownership power and board independence. * significant at 10%, ** significant at 5%, *** significant at 1%.*
Source: Authors' computations.

Model 1 in Table 3 above shows that the coefficient of the interaction term of *PREP*BINP* is positive and significant at the 10% level. This result indicates that the interaction effect of a commercial bank's *PREP* and *BINP* can strengthen the relationship between *CEOP* and *Z-SCORE* and, hence, *BR* in Uganda. The results suggest that *BINP* can incentivise the CEO to use his *PREP* to lead the bank into less risky ventures. This finding shows that banks hiring prestigious CEOs with high qualifications and connections can reduce their risk exposures if independent directors exist.

The coefficient of the interaction between the *CFEP*, that is, the CEO being internally hired (*CFEP*) and *BINP* (*CFEP * BINP*) in Model 2 is negative and significant at the 5% level. This result indicates that *BINP* can reduce the effect of the power of the CEO as derived from the *CFEP* on *Z-SCORE* and hence *BR*. This implies that the ability of such a CEO to expose the bank to more or less risk is reduced by the presence of independent directors.

Model 3 shows that the coefficient of the interaction term of *EXPP* and *BINP* is insignificant. The results suggest that *BINP* does not have any

impact on the extent to which *EXPP* enables a powerful CEO to influence *BR*. The same applies to the interaction between *OWNP* and *BINP*, which is also insignificant. Regarding the moderating effect of *BINP* on the relationship between *CEOP* and *Z-SCORE*, the interaction effect is between *BINP* and the two indicators of *CEOP*: *PREP* and *CFEP*.

5. CONCLUSION

This paper investigated the moderating effect of board independence on the relationship between CEO power and bank risk. The moderating effect of board independence in the relationship between CEO power and bank risk is significant for prestige power and the CEO being internally hired. This means that commercial banks should have CEOs with high prestige, have connections outside the respective banks in which they are CEOs and should be allowed to serve for four to seven years since experienced CEOs reduce bank risk and the relationship between their power and bank risk is positively affected by board independence. The risk-reducing advantage of having an independent board can be experienced by banks in which CEOs have long tenure and have prestige power. Since there are mixed findings regarding the effect of CEO power on bank risk in the existing literature, this study has confirmed that such controversy could have been due to ignoring the moderating role of board independence. This study has confirmed that board independence moderates the relationship between CEO power and bank risk. This study has also highlighted the CEO power aspects relevant to reducing bank risk in Sub-saharan Africa, specifically in Uganda, and the role an independent board can play. In Uganda, the moderating effect of board independence on the relationship between CEO power and bank risk is between prestige power and the CEO being a former executive. Suppose policies emphasising board independence as a corporate governance measure to regulate the power of CEOs and its effect on bank risk are designed. In that case, they should focus on the CEO's prestige and internally hire CEOs. Those two aspects of CEO power have a relationship with bank risk that is moderated by board independence in Uganda.

The implications of the findings of this study are that it calls for a greater need to curb excessive CEO power while ensuring more oversight by the independent directors on the board. This would result in banks remaining within operational risk appetite targets and tolerance levels. Corporate governance practices in commercial banks of developing economies should, therefore, be aligned to the underlying theoretical framework, which includes the agency theory and stewardship theory that would see shareholders empowered to hold the independent board of directors accountable for actions and decisions taken by the CEO in pursuit of higher profits while assuming higher risks.

This study has several caveats. First, this study is limited to commercial banks in Uganda. This limits its applicability to other parts of the world, including developed and developing countries. Further research must be done to test if the results are accurate when dealing with other jurisdictions. Secondly, the study was carried out among commercial banks only. The research can include other financial services providers, such as microfinance deposit-taking institutions (MDIs). The study concentrated on the 25 commercial banks in Uganda. However, Uganda has several other financial intermediaries, including seven microfinance institutions, five MDIs, four credit and finance companies, two development banks and over 33,000 saving and credit cooperative organisations (SACCOs), both formally registered and unregistered. In fact, by May 2023, Uganda had 10,594 registered SACCOs under the parish development model, 6,700 under Emyooga and 15,706 as other SACCOs (Ggoobi, 2023). The large informal sector, growing micro and SMEs, and formally employed people utilise these institutions for credit and need protection. This study needs to be extended to study how the CEOs of these intermediaries utilise their power to affect risk therein and protect the many people who save and borrow from them. Thirdly, further research can be carried out to establish the individual effect of each CEO power element on a bank's specific risks. In as much as this study considered how elements of CEO power relate to bank risk in general, it is imperative to find out which element of CEO power influences which type of risk to empower boards of directors to control for such elements and risks in future.

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