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### RESEARCH ARTICLE

#### THE SIGNIFICANCE OF INDEPENDENCE OF BOARD OF DIRECTORS ON FINANCIAL AND ADMINISTRATIVE PERFORMANCE EVALUATION IN COMMERCIAL BANKS A FIELD STUDY ON A SAMPLE OF SUDANESE COMMERCIAL BANKS

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#### Abstract

This research aimed to identify the effect of bank risk management on the performance evaluation in the banking sector. To effect the field study, the research used the questionnaire as a tool to collect the data. The research also used the descriptive analytical approach to describe the field study. The research has reached a number of findings, key of which, is that, the board of directors is committed to the regulations related to the stakeholders' parties, in order to guarantee the treatment of any irregularities in accordance with the rules and principles in force in the bank. The application of corporate governance guidelines will help in the potentiality of the inspection and evaluation of the efficiency and effectiveness of the financial and administrative performance in the bank. The research findings have also shown that there is a correlation that is statistically significant between the independence of the board of directors and the financial and administrative performance evaluation in the bank. The research, on the other hand, recommended the activation of the role of the boards of directors in the commercial banks by assuming their tasks and duties, which may lead to reduce risk.

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#### Introduction:-

Corporate governance is the mechanism of control over corporate management, which leads to reduce risk of embezzlement, and improvement of the management of the corporate and its leadership in order to create effective social responsibility. Provided that corporate governance should provide an organizational structure by which the objectives of the corporate as well as the methods to achieve such objectives and performance control will be determined. Needless to say, that distinguished corporate enjoys such leadership as having a future vision to achieve, by the commitment to a specific mission towards their environment and clients. Distinguished corporate has always the ability to move and respond in an efficient and effective manner to grasp the opportunities, and avoid threats or otherwise, to deal with it rationally in a way that serves its interests and transforms such threats into opportunities that should be seized.

The principle of banking integrity requires that each unit of the banking system, should enjoy a sound and proper financial position, and should have the administrative ability and efficiency that enable it to manage its liabilities and assets in an efficient manner. This is in addition to undertaking its role in the financial mediation and enjoyment

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of financial relevance and the ability to face the requirements of capital adequacy and liquidity and the achievement of an appropriate portion of liquidity. This research investigated the significance of the independence of the board of directors in the performance evaluation in the Sudanese banking sector.

**Research problem**

Corporates are encountering numerous difficulties that significantly affect their financial and administrative performance. Some of these difficulties are related to the systems and legislations, which are out of the control of the corporate. Other difficulties may emerge out of the conflict of interests between shareholders and the board of directors. However, the results of such conflicts have emerged clearly during the financial crisis, which took place in 1997 and 2009. These crises have highlighted the problem of confidence in the financial institutions and legislations that govern the business activity as well as the relationship between the different parties. This is due to these problems that affect the financial and administrative performance of these corporates. To put the research problem's statement into effect, the following research question has been raised: is there any correlation between the independence of the board of directors and the financial and administrative performance evaluation in commercial banks?

**Research hypothesis**

There is a correlation that is statistically significant between the independence of the board of directors and the financial and administrative performance evaluation in commercial banks.

**Research significance**

**Scientific significance**

The research acquires its significance from the fact that it is one of the few researches that dealt with the issue of performance efficiency of bank risk management and its relation with the financial and administrative performance in the Sudanese banking sector.

**Practical significance**

To contribute to the enrichment of the library with a research that may contribute to developing the banking sector.

To highlight the significance of the independence of the board of directors and the financial and administrative performance evaluation in commercial banks.

**Research Objectives:-**

The research aimed to identify the conceptual framework in the Sudanese commercial banks and the effect of bank risk management in the evaluation of the performance efficiency in the banking sector. That is to say, to clarify the correlation between the (corporate governance) and the independence of the board of directors and the financial and administrative performance evaluation in commercial banks.

To achieve scientific and practical results in the field of bank risk in the banking sector.

**Research Methodology:-**

The research used the descriptive analytical approach to effect the field study.

**Sources of data collection**

The research used the following sources

1. Primary sources: which are represented in the (questionnaire) interview and observations.
2. Secondary sources: books- references and periodicals, academic theses and dissertations and internet sites.

**Research limitation**

**Temporal limitation:**

2019

**Spatial limitation: Farmer's Commercial Banks**

Sudan

### **Concept and significance and objectives of corporate governance:**

The term corporate governance refers to the Arabic translation of the English origin of the word (**Governance**), which has been reached by the Arabic Language Academy after many attempts to Arabize this word, where previously Arabized to good governance, perfect management corporate control, corporate governorship, corporate governance and other correlative terms. Yet the most common and widely circulated among writers and researchers is the term corporate governance. (Hanafi,2005:10). Hitt, has defined corporate governance as a set of criteria on the basis of which, stakeholders in the corporate hold managers at the higher levels accountable for their decisions and results arising therefrom, in order to control the corporate and acquire competitive advantage, (Hitt, et al: 2003: 333). The Institute of Internal Auditors, on the other hand, defined corporate governance as the “operations by which, the procedures are laid down by the representative of the stakeholders to provide supervision and management and control over risk, and to ensure the adequacy of controls, to achieve the objectives sought of the corporate and maintain its value by the application of corporate governance. “

The researchers maintain that this definition ensures the role of control to achieve the objectives of the corporate by the application of the corporate governance in the corporate.

### **Definition of Control**

The verbal meaning of control is “seriousness, commitment, accuracy, good performance of duty and respect for the right of others “. Functional control, on the other hand, can be defined as the compliance of the employee with duties and responsibilities for which he is commissioned. In other words, the existence of predetermined rules and regulations to which the employee is committed, (Awad, 1999:58).

### **Concept of control in service provision**

It is to exceed the expectations of clients and have attention to the details, by the development of the methods pursued in the provision of service, with a view to building and enhancing the capacity of the individuals, and to communicate in an effective manner in each stage of providing the service. This is in addition to adopting a distinguished planning, which is not only concentrate on the service provided, but also on the method of providing it, (Adil,2003:6).

### **Concept of management Control**

Corporates are established to achieve specific goals and objectives, therefore, the first step to establish a corporate in which management control is achieved, is to clearly determine and specify the goals and objectives sought, and to adopt such goals and objectives as a basis for planning and guidance for the overall activities of management. They may also be deemed as the most significant measurement to identify the levels of achievement and results evaluation. Administrative leadership plays a pivotal and effective role in the formulation of the goals and objectives of the management and the verification of its linkage with the surrounding climate as well as the activation of its own elements and capacities. By doing so, the administrative and strategic leadership of the advanced knowledgeable abilities, will become the most significant components and mechanisms of management control. The responsibilities of management control are summarized in the study and understanding of the surrounding climate, and the disclosure of its opportunities and threats. This is besides, the preparation of the self-elements and components of the management to invest those opportunities and to deal with potential threats, (Ahamed,2001: 45,46).

It is evident that such excellent administrative performance cannot be achieved by mere chance, or by pursuing methodologies that depend largely on spontaneity and reliance on self-expertise of the leadership, but rather, requires to adopt excellent administrative methodology, namely, the so-called strategic management, which works to link those external and internal elements which have an impact on the management performance. In this respect, Strategic management is required to provide the most effective framework to coordinate between the different elements of performance, in order to invest the opportunities and avoid threats, and hence to achieve management control, (Ibid: 45).

The corporate may be able to achieve its goals and objectives, through the organization of what is available of interdependent and interrelated resources that their beginnings are related to their ends. These resources must be planned, timed and coordinated in the form of processes and monitored to ascertain their validity and to ensure that they adhere to the quality specifications in overall operations. This requires to achieve clear excellence in the pattern of management and its achievement about the adoption of the method of management process - traditional management, which has been consecrated organizational divisions and separated and estranged functional groups.

The control management is realized by the act of consecrating the interdependence and interrelation in the management process, and hence best investment of resources and linking the inputs to the outputs, in clear measurable principle. Control management, on the other hand, depends largely on information and facts that describe all that which is done within and outside the management, and having to deal consciously with those information and facts to extract the significant indicators of the progress of performance in the different fields of activity. This is in addition to expecting the potential problems and predicting opportunities and threats. The establishment and activation of the administrative information systems are deemed as a basis for the development of opportunities of control. In the light of the information of the corporate's own circumstances and its vision and understanding of the external circumstances, the management takes its decisions. The management always attempts to evaluate its achievement and judge the efficiency of the work and its productive levels, in view of specific criteria in the plans and programs of performance as well as objectives and planned results. The management may also depend on the comparison of its achievements and the levels of its performance and effectiveness with those of the other excellent and distinguished corporates. The corporate thus seeks to reach high levels of practice by applying the method of benchmarking, which is the more excellent in management control. This method will be adopted for development and continuous manner of improvement, and not only when it is facing some problems and difficulties.

One of the most significant components of management control is the continuous improvement, which is effective in putting the corporate in the best position among other competitors. Continuous improvement helps the corporate to take the lead in the development of products and services and performance systems, in a manner that ensures the excellence and provision of benefits and privileges to clients (stakeholders), which no other competitors can follow, (Ibid,47).

**Based on said facts, the following has been reached**

1. Corporate governance ensures the significance of (compliance of the board of directors with the laws and regulations laid down to achieve the objectives of the stakeholders).
2. Compliance with the guidelines of corporate governance contributes significantly to save more efforts and costs of financial and administrative control in the banking sector.

**Firstly: Principles of corporate governance**

Due to the increasing interpretation of the corporate governance's concept for the time being, many international corporates in many countries have investigated and analyzed and studied this concept and worked to issue a set of principles and criteria that govern its sound application. Key among those institutions is the Organization for Economic Cooperation and Development for corporate governance.

**Secondly: The principles of Organization for Economic Cooperation and Development**

In April 1988 the board of the Organization for Economic Cooperation and Development, has requested the organization to share its views with the states parties to the organization and other concerned organizations as well as the private sector to set the principles and guidelines for the corporate governance. As a result, the Organization has issued five principles in 1999 as follows, (Fuad, 2013: 310):

**First principle:** shareholders' equity.

**Second principle:** equitable treatment of shareholders.

**Third principle:** the role of stakeholders and parties concerned in the bank.

**Fourth principle:** disclosure and transparency.

**Fifth principle:** responsibilities of the board of directors.

**Thirdly: Criteria for corporate governance**

The Basel Committee has a role in the corporate governance of the banking sector. Basel Committee on Banking Supervision has been active in obtaining combined experience of its members and others, which was represented in issuing a supervisory guidance, to accelerate secure and reasonable banking practices. Taking into account. The fact that supervision cannot be effective if corporate governance does not work as planned. Therefore, bank supervisors have a strong interest to ensure effective corporate governance in each banking corporate, since supervisory experience emphasizes the need for appropriate levels of accountability and checking of bank balances in each bank.

Corporate governance in an acceptable manner, makes the work of supervisors easier and enables them to contribute to creating cooperative relationships between the management of the bank and the supervisions, (Habar,2012:84).

The Basel Committee has produced scientific papers on specific topics, focusing on the significance of corporate governance in the banking sector, which include the following, (Mansour, 2012:90):

1. Principles of credit risk management, (May,1998).
2. Principles of risk management of interest rate, (September,1998).
3. Improvement of bank transparency, (September,1988).
4. Framework for internal control systems in banking sector, (1998), these papers clarified the reality of the strategy and technical methods, which has been considered as the principles of the sound corporate governance in the banking system, which in turn consist of numerous elements, the most significant of which, are the following, (Amgad, ibid :648):
5. Provision of a consistent code of conduct, and systems to measure the extent of the commitment to achieve the objectives of the criteria.
6. Provision of a clear corporate strategy, on the basis of which, the success of the corporate would be measured as a whole, as well as the extent of the contribution of the individuals to this success.
7. Sound distribution of the levels and decision-making centers, including a hierarchical system of gradual accreditation powers from the employees up to the board of directors.
8. Establishment of a mechanism for cooperation between the board of director and senior management and internal and external auditing.
9. Provision of strong internal control systems, including the internal and external auditing and risk management positions.
10. Special control of risk centers, where the potential for conflicts of interest is high, including business relations with borrowers, principal shareholders, senior management and key corporate decision makers.
11. Financial and administrative incentives for senior management, which effect the business in an appropriate manner, for the employees, whether in the form of remunerations, promotions or any other forms.
12. A reasonable flow of information both inside and outside the bank.

Another paper issued by the Basel Committee on corporate governance and Control, referred to the following (op. cit., 84):

Agreement of the board of directors of the bank, or one of the competent committees, or senior management must have been obtained for overall material aspects of the classification and evaluation operations. Provided that those Parties shall have a general understanding of the bank's system on risk classification, and a detailed concept of accompanying management reports.

Senior management must notify the board of directors or its competent committee of any material changes or exceptions to the established policies, which may materially affect the operations of the Bank's classification system.

Senior management shall have a good concept of the design and how the bank carries on its business, and must agree on material differences between the laid down procedures and actual practice. Senior management should constantly ensure the integrity of the system and internal classification should be an essential part of the reporting process to those Parties. Reports must include such information according to its significance and type and the level of the body for which reporting is provided.

#### **Literature on Corporate governance in Sudanese banks**

The Basel Committee on Banking Supervision was concerned with corporate governance, to effect that, a research paper has been published, in July 2005, on how to strength the role of corporate governance in the banking institutions. This is as a review for the document of 1999. The most significant pivots of this paper are the following, (Abd Elmonim, 2002:2)

#### **Firstly: Definition of Corporate governance. (Central Bank of Sudan:23)**

There are four types of control, which should be included in the organizational structure of any bank.

1. Control of board of directors or supervisory board.
2. Control of those individuals who do not participate in the management of the different daily business.
3. Direct control of different business.
4. Risk management and audit and compliance jobs.

**Sixth principle: Responsibilities of board of directors**

1. The corporate governance framework must provide for strategic guiding steps to guide corporates (banks), and ensure effective follow up of the executive management from the part of the board of directors, and also to ensure the accountability of the management by shareholders, (Amjad, (op. cit).
2. Members of the board of directors should work on the basis of providing full information based on good faith and the integrity of the laid down rules. The Board should also work for the interest of the corporate and the shareholders.
3. The board of directors should ensure equal treatment of all shareholders, upon making decisions of varying implications for different categories of shareholders.
4. The board of directors should ensure conformity with the laws for the time being in force, and take into consideration, the concerns of all stakeholders.
5. The board of directors should undertake a set of core functions as in the following: (Ibid: 623).

Review and guide corporate strategy, business plans, risk policy, annual budgets and activity plans. The Board also is required to set performance objectives and follow up implementation and performance, and control over capital expenditure, and operations of acquisitions and sale of assets.

Selection of principal executive officers, determination of salaries and privileges granted to them, and follow-up them, when it requires to replace them, and follow-up plans of succession planning.

Review the levels of salaries and privileges of the executive officers and members of the board of directors and ensure the formality and transparency of the nomination process of the members of board of directors

Follow-up and management of the forms of conflict of the various interests of the executive management, board of directors and shareholders, including the misappropriation of the assets of the corporate (the bank) and the postponement of the dealings of the parties concerned.

To ensure the integrity of the accounting and financial reporting of the corporate (the bank), including, inter alia, independent auditing and appropriate control systems, in particular, the systems of risk monitoring and financial control and compliance with the provisions of laws.

Follow-up of corporate governance effectiveness under which, the Board is functioning and taking the required changes.

Control over the process of disclosure and telecommunication.

The board of directors should undertake the practice of objective evaluation of the corporate activities, this must be performed independently from executive management.

The board of directors must consider the possibility of the appointment of a considerable number of non-executive members, who are able to independently evaluate performance, when a potentiality of conflict of interests exists, namely, financial reporting and nomination of executive managers and the report of the board of directors' remunerations.

For those responsibilities to be assumed, the members of the board of directors should be guaranteed the access to accurate and relevant information in a timely manner.

**Secondly**

The role of the board of directors in the consolidation of strategic objectives and a set of shared values to apply in the banking institutions.

1. The board of directors should work to consolidate the strategic objectives and moral standards which have been set forth to guide continuous activities, taking into account, the interests of the shareholders.
2. Employees must be encouraged to freely report in a direct or indirect manner and in complete secrecy, and beyond the knowledge of the internal management, to the board of directors and senior management any illegal and immoral practices that may have taken place. The Board and senior management, in such case must provide protection to those employees, who report such illegal practices without consequences.

3. The board of directors should ensure that senior management work to apply the established policies, in order to determine and avoid and manage the conflicts, which may arise, when the bank is a part of collective structure (a group of banks or corporates), which may lead to create conflict of interest.
4. The board of directors should ensure that senior management works to apply a set of strategic policies and procedures laid down to enhance professional behavior, and that senior management is applying such policies that prevent or limit activities and relationships that reduce the efficiency of corporate governance, such as:
5. Conflict of interests:
6. Lending to officials and employees and managers.
7. Provision of a distinguished treatment for parties related to the bank and other parties that the bank prefers to deal with them, (concessional financing and waiver of commissions).
8. The board of directors must be informed of each type of financial and material activities, that the bank intended to carry out, in case of not all the members had sufficient knowledge of such activities, training sessions must be designed for them.
9. To draw clear lines of responsibility and accountability within the bank. Effective boards of directors often set out key responsibilities and functions for themselves and senior management.
10. The board of directors shall have control over administrative plans and the implementation of its policies.
11. Senior management should undertake the process of distribution of tasks and responsibilities to the team work, and establish management structure, which enhances the responsibility. The senior management should remain committed to monitoring the implementation of these responsibilities as well as its responsibility to the Board of directors with regard to the Bank's performance.

#### **Drawing clear lines of responsibilities and accountability within the bank**

In the event of groups, the board of directors of the group should be released from the responsibilities of corporate governance, provided that the Board shall have knowledge of risk and material issues that which may affect the group. The Board also is required to have a relevant control over the activities of the branches of the group.

The board of directors of the group should develop a policy on transactions and relationships of the corporates that related to each other. This policy should ensure that transactions with other parties, in particular shareholders, executive officers or the Board members, were not carried out in terms deemed to be contrary to the interests of the Bank and its shareholders.

The board of director is responsible for the operations and financial integrity of the bank.

#### **Requirements of the Board members**

1. The board of directors and its members provide additional power to control the bank when:
2. They understand their supervisory role and allegiance and pay attention to the bank and shareholders.
3. Avoid conflict of interest and prevention of conflict in their activities with other bodies and their obligation to them.
4. They are able to devote sufficient time and energy to their responsibilities.
5. They select and monitor and replace the chief executive officers, provided that the Bank has a plan for appointment, and ensuring that any individual who will be appointed is competent and appropriate for the management of the Bank.
6. They keep up meeting with senior management and internal auditing to establish and approved the policies, and draw the lines of cooperation and monitor progress towards the objectives of the bank.
7. They enhance the bank's safety and integrity, and ensure that the bank maintains an effective relationship with the monitors.
8. They provide constructive advice and effective recommendations.
9. They don't participate in the bank's daily management.

#### **Policies of remunerations' Payment**

Failure to pay up the motivated remunerations of the Board and senior management members for a long period, may lead to counter-actions against the Bank and its shareholders.

Accordingly, with the prior consent of the shareholders, the board of directors must approve the payment of remunerations to its members and senior management and employees, and to ensure that the remunerations are relevant to the culture and objectives and long-term strategy of the Bank.

It may be appropriate to apply the policies of paying remunerations by a committee appointed by the Board from a group of independent directors in order to mitigate potential conflict of interests and to guarantee the rights of shareholders and other parties.

In order to avoid excessive payment of incentives, the salary criterion may be established within the scope of general policy business.

### **Quality Assurance of Supervision of Senior Management**

Senior management consists of a number of responsible individuals of those who perform daily business of the bank, which for example include, the financial manager and heads of sectors, who should obtain the necessary skills for business administration and the ability to monitor the individuals. Senior management undertakes control over the managers of the business lines in specific business activities that conforms with the procedures and policies laid down by the members of the board of directors. The senior management should also be required to lay down an effective internal control system, under the supervision of the board of directors.

Senior management should as well, avoid the following:

1. Excessive interference in the decisions made by business lines.
2. Practicing management without having the necessary experience and knowledge to do so.

### **Committees of board of directors**

The boards of directors of banks form specialized committee to help them in performing their functions, the most significant committees are: Audit committee: It is responsible for monitoring the bank's internal and external auditors and agree to appoint them or dispense with them, as well as to examine and approve the audit system, and work to ensure that the management takes appropriate corrective measures to address points of weaknesses. To achieve independence, it is preferable that this committee would consist of a group of non-executive members, provided that the president shall have experience in the field of accounting and auditing.

### **Risk management committee**

this committee works to effect control over the activities of the senior management with respect to finance risk management and the market, liquidity, operation and legal risk. This is in addition to other risk management of the bank.

### **Committee of compensation**

this committee works to control the provision of remunerations to the senior management and other key employees, and to ensure that these remunerations are consistent with the culture and objectives and strategy and environment of the Bank.

### **Nomination committee**

this committee provides an assessment on the effectiveness of the board of directors and determines and replaces the members of the Board.

### **Methods of financial and administrative performance evaluation**

#### **Concept of performance evaluation**

Performance evaluation is defined as (researching and investigating the degree of productive sufficiency, which is accompanying the implementation, in order to take correct procedures). (Mohammed, 2014: 156). Others have defined the process of performance evaluation as (periodical audit of the corporate's operations in order to ensure that the same is functioning in accordance with that which achieves its objectives), (Khalifa, 1999:8). The performance evaluation, on the other hand, was defined as a process of continuous reporting and control over the whole economic activity of the corporate, as well as the elements of production of the corporate, whether, this element is material or human, (Abu Elfutoh, 1994: 25). Some researchers, see performance evaluation as a process of examining, analyzing and measuring the results achieved by the efforts of individuals responsible for performance under certain circumstances, specific times and available potentialities. This is with a view to detecting deficiencies and irregularities and analyzing their causes and responsibility. It is through the performance evaluation that the level and efficiency with which the objectives were implemented can be judged. Accordingly, performance evaluation is the last ring of the management cycle (Mohammed, 1993:122).

Performance evaluation may be defined as the main pillar for the improvement of the performance and its efficiency, since it is the essence of control in the analysis of irregularities resulting from the evaluation process. This is in addition to taking the procedures of careful examination and systematic analysis of all trends of organization within the business such as organization, procedures, rules and the selection of individuals to achieve the objectives with minimal effort, cost and time to achieve a profitable return from a business.

### **Significance of performance evaluation**

The significance of the concept of performance evaluation as well as its benefits and dimensions, highlight the performance evaluation as a significant and vital system for the corporate. This is because it is only through the process of performance evaluation the corporate will obtain feedback information. Many writers have investigated the significance of performance evaluation for corporates and institutions, for instance, (performance evaluation a strategic process which can be used as a tool or a method by the basis of which, performance is managed and directed towards specific individual, collective and organizational objectives) (Andrew, no date: 24). From the said facts, it can be inferred that there is a great significance for the performance evaluation in the corporate. Therefore, performance evaluation determines the need of the corporate for human resources, by identifying the capacity of current individuals in performing their business in accordance with the determined objectives.

### **Benefits of performance evaluation**

The benefits of performance may be stated as follows (Suhair, 2021: 17):

1. Performance evaluation is one of the most significant pillars, on which the process of monitoring and control is based.
2. Performance evaluation is directly useful in diagnosing and solving the problem and identifying the points of strength and weakness in the corporate.
3. Performance evaluation is useful in providing the management with necessary information to take necessary significant decisions, whether, for development or investment, or otherwise, upon making material changes, such as purchasing of machineries and changing products and invading new markets.
4. Performance evaluation is one of the most important pillars of policy-making both at the corporate level and at the state's level.
5. Performance evaluation is one of the most significant sources of data necessary for planning.

### **Elements of performance evaluation**

From the foregoing argument, it is clear that performance evaluation includes the following three main elements:

- A. **Effectiveness:** It is intended to examine the extent to which the expected results and objectives are achieved by monitoring the effectiveness of performance with respect to achieve the corporate's objectives. This is in addition to monitoring the actual results of its activities compared with the desired results.
- B. **Efficiency:** it is the particular relationship between the outputs such as goods and services or other products and resources used for the production of such goods or provision of such services. This besides, having attention to determine the maximum output for a given input by monitoring the extent of the efficiency of benefitting from financial and human and other resources, including, the examination of information systems, performance measurements and follow-up arrangements, as well as procedures used to address deficiencies.
- C. **Economy:** means how resources are used to ensure that their cost is kept to a minimum, taking into account appropriate quality.

### **Objectives of performance evaluation**

These objectives are represented in the following: (Arab Group, for Supreme Financial and Accounting Control Institutions 1995: 17):

1. To identify the factors affecting the results and diagnose what may appear of difficulties in the implementation in each of responsibility centers in the economic unit and determine its causes and suggest methods to treat them.
2. To measure the efficiency of the economic unit in the utilization of its available economic resources in a sound manner, with a view to Judging the extent of its success in achieving the planned objectives in a complete possible manner.
3. Using modern methods in evaluating the extent of the efficiency and the idealism of the corporate in the management of the economic unit. The effectiveness of performance evaluation may extend to determine the relationship between the targeted results of the management, and the results achieved in the economic unit. Performance evaluation efficiency, on the other hand, includes the efficiency of the organization of the economic unit, particularly, the evaluation of internal control system and the performance efficiency of its

financial operations. It also includes the extent of the quality of the ability of the economic unit to reduce the cost of its resources to the lowest possible level, while taking into account the required quality.

4. Performance evaluation helps the management in drawing its attention to the points of weaknesses and shortcomings in the performance of the responsibility centers and the performance of the employees, in order to study the effect of poor performance and come up with radical solutions that will help the management to overcome those conditions and difficulties, by setting up a precise and sound system of accountability.
5. Performance evaluation system, is a system of information that provides the management of the economic unit with the necessary information needed for the management of its various assets, in terms of taking sound decisions with respect to assets, their utilizations and comparison between different alternatives.

### **Significance of performance evaluation**

The process of performance evaluation and financial control is one of the most significant instruments to help the management of the corporate to measure its financial performance effectiveness and efficiency and detect any irregularity in it, which ensures its survival and sustainability.

The significance of studying financial performance is highlighted in the following (Mashal, 2011: 13):

1. Follow-up and knowledge of the activity of the economic unit and its nature.
2. Follow-up and knowledge of the financial and economic circumstances surrounding the Unit.
3. Help in performing the process of analysis and comparison and evaluation of the financial statements.
4. Help in understanding the interactive understanding between the financial statements.

### **Objectives of control and performance evaluation**

Performance evaluation aims to identify what have been achieved of objectives, in the existing performance circumstances of the corporate's activity and to monitor performance to detect irregularities and address and analyze the same in a timely manner, in order to provide appropriate solutions. This is lest problems arising from the continuation of the activity (Mohamed, 1969: 73).

### **Factors affecting administrative performance**

The most important factors affecting administrative performance are the following (Hanafi, 2000: 107):

#### **Lack of specified objectives**

A corporate which does not have detailed business plans and objectives and production rates required to be performed, will not be able to measure the achievement or accountability of its employees for their performance level, since there is no a predetermined standard. In such case, the corporate does not have criteria and indicators for its good production and performance. In this event, an employee with good performance will be equal to an employee with poor performance.

#### **Lack of participation in management**

Lack of participation of the employees at the different levels of management in planning and decision-making, contributes to creating a gap between the administrative leadership and the employees of the lower levels. Consequently, this may lead to have a weak sense of responsibility and collective work to achieve the objectives of the corporate. As a result, this in turn leads to poor level of performance among employees, who feel that they have not been involved in setting the objectives sought to be achieved or otherwise, in the solutions to the problems they encounter in the performance. Accordingly, they may consider themselves marginalized in the corporate.

#### **Different levels of performance**

One of the factors affecting the performance of the employees, is the lack of administrative methods that connect the performance ratios to the material and moral yield they receive. The more the level of performance of the employee is associated with the promotions and bonuses and incentives he receives, the more the motivation factors are not effective on the employees. However, this requires a distinctive system to evaluate the performance of employees to actually make a distinction between the diligent and high-performance employee and the diligent and middle-performance employee and the lazy and non-performing employee (Hanafi, op. cit.:06).

#### **Problems of Job satisfaction**

Job satisfaction is a key factor that affects the employees' level of performance. Therefore, lack of job satisfaction or its decline, results in poor performance and productivity. Job satisfaction is affected by a large number of

organizational and personal factors of the employee, such as social factors of age, educational qualification, sex, customs and traditions, and other organizational factors, for instance, the responsibilities, duties, promotion system and incentives in the corporate.

### **Administrative laxity**

Administrative laxity in the corporate means loss of working hours in unproductive matters and may even have a negative effect on the performance of other employees. Administrative laxity may arise as a result of the method of leadership and supervision, or the organizational culture prevailing in the corporate.

### **Previous studies**

1. **Study of: Mahmoud, 2012:** this research problem is represented in the lack of concentration in dealing with information as a whole in practical and scientific terms. The research relied on the verification of many research hypotheses, key of which, is the lack of the link of the objectives of the decision support center to a specific strategic line and its influence by cabinet reshuffle taking place from time to time. The research used the descriptive analytical approach to effect the field study. The research has reached a number of findings, the most significant of which are the following: there is an increasing need for the development of the mechanisms and methods of information center in the Sudan. The research key recommendation is to pay attention to introduce the computer into the different educational stages and to create financial systems in the form of permanent aid to provide devices and equipment to schools to achieve technical literacy.
2. **Study of: Othman, 2010:** the research problem is represented in the extent of the ability of corporates to deal with corporate governance in the performance efficiency as applied in the Sudanese insurance corporates. The research, on the other, is based on the hypothesis that corporate governance in the corporates is related to their organizational culture, which helps them in guiding and integrating the administrative and executive activities. This research has reached a number of findings, the most important of which, is the existence of a primitive form of practicing corporate governance, relied largely on the manager and his expertise without scientific reference. The research recommended that attention should be given to academic levels of the leadership. The research also recommended having attention to the training of middle management, and to clarify the objectives for operational levels in order to further ensure their achievement.

### **Field research procedures**

This subject comprises the steps and procedures, which have been used in the field study. This includes the design of research instrument, a description of the research community and sample, performance of the validity and reliability tests for the research instrument and to ensure that it is reliable. This is in addition to clarifying the statistical methods on the basis of which, the data have been analyzed and research findings have been determined.

### **Research community and research sample**

Research community, refers to the total set of elements on which the researcher seeks to generalize the results relevant to the problem in question, and from which the basic research community is formed. This research sample was selected from the employees working at the Farmer's Commercial Bank.

The research sample was selected using the convenience sample to serve the research objectives. It is based on the research population knowledge, without any restrictions and conditions other than what they see reasonable. It is one of the non-probability samples. A questionnaire form was designed and distributed to 60 respondents where, 50 of which were recovered, that is to say, (83.3%).

### **Research instrument design**

It is the means used by the researcher in the collection of necessary information on the phenomenon in question. Needless to say, there are many instruments used in scientific research to obtain information and data. This research depended mainly on the questionnaire technique, which is the primary instrument in the collection of necessary data and information. The questionnaire is defined as: (A research tool consisting of a set of statements with all possible answers to it. Spaces for answers may be required for a written answer. The questionnaire respondents should determine what they think or apply to them, or believe that it is the correct answer to each single statement. The respondents may write on the specific space what they believe, see or feel about what such statement measures.)

### **The research has chosen the questionnaire instrument for its following advantages**

1. The possibility of applying it in order to obtain information from a number of individuals.

2. Low cost and easy to apply.
3. The facility of putting questions and framing phrases and statements of the questions.
4. Save the respondents time and give them a chance to think.
5. Respondents feel free to express opinions that they fear others may disagree with them.

**Section one**

This includes the information of the research sample individuals, which is the personal information that is related to the description of the research sample, such as: age category, scientific qualification, scientific specialization, job title and years of experience.

**Section two**

This includes the basic statements, which are the pivots from which the research hypotheses are recognized. This section comprises (22) statements that represent the research hypotheses as follows:

**Section three**

independence of the board of directors, includes (5) statements:

**Section four**

financial and administrative performance evaluation in the bank, includes (7) statements:

**In the formation of the questionnaire statements, the following has been observed**

1. Relevant for the dimension that it has been set to measure.
2. Inclusive of the dimension or field to which it belongs.
3. legible in terms of language and free of redundancy.
4. Some statements should have a "positive" trend and others should have a "negative" trend to ensure the focus of the respondents. The degree of possible potential responses to the statements has been measured according to the five-point Likert scale, which ranges from strongly disagree to strongly agree, as shown in table (3/2/1).

The scale used in the study has been corrected as follows:

The total score of the scale, is the sum of the degree of the item divided by the statements.  $(3 = 5 / (5+4+3+2+1))$

**The weighted averages are as in the following table**

Table (2) shows weights and weighted averages for the options of the answer of the respondents.

**Table (2):-** weight and weighted averages for the research scale.

Option.	I strongly disagree.	I agree.	Neutral.	I agree.	I strongly agree.
weight	1	2	3	4	5
weighted average	1.79-1.0	2.59-1.8	3.39-2.6	4.19-3.4	5-4.2

**Secondly: Evaluation of measurement tools.**

The validity of a measurement tool, means its ability to measure what it is designed for. Based on the correct measurement theory, complete validity of the instrument, means that it is free of measurement errors, whether random or regular. In the first phase, the research relied on the evaluation of the relevance of the scales used in the process of measurement, using the reliability and validity tests to exclude the insignificant statements from the (22) research statements. This is to verify that the statements used to measure a given concept they are actually measuring it and do not measure other dimensions. These tests are characterized by the ability to provide a set of benchmarks that determine the applicability of data to the detected model and to exclude any other alternative models that might explain the relationship between the scale statements based on the response to research sample items. The following is the presentation of the results of the analysis of the scales used in the research.

**Scale content validity test**

The scale content validity test has been carried out by the evaluation of the validity of the concept, which may return to either the differences of the meanings, in accordance with the culture of the society or as a result of the translation

of the scales from one language to another. Initially, the statements of the scales were presented to (3) arbitrators specialized in the same research field, in order to analyze the contents of the statements and to determine the extent of the agreement of the statements of each scale and its purpose. According to their comments and observations, some amendments were made to the statements of the scale, where, there are some statements which are so difficult for the respondent to understand their meaning. In the light of the comments of the arbitrators, the proposed amendments were made, on the basis of which, the questionnaire validity hastaken its final form.

### Consistency and intrinsic validity test of research scales

Validity refers to the (stability of the scale withhaving no conflict with itself. Meaning that, the scale gives the same results with a probability equal to the value of the coefficient, if it is re-applied to the same sample). Consequently, it leads to the same results or leads to results that are compatible each time a measurement is made. The more increase in the degree of the validity and reliability of the instrument, the more increase of the confidence in it. There are several ways to verify the validity of the scale, including split have methodand Cronbach's alpha coefficientmethod to ascertain the internal consistency of the scales. The Cronbach's alpha coefficient method, has been used, which takes values ranging from zero to one. Therefore, if the data does not have a value, the scaleis equal to zero, and on the contrary, if there is a complete validity in the data, the value of the scale equals one. Meaning that, the increasein the Cronbach's alpha coefficientis the increase in the reliability of the data in reflecting the results of the samplein the research community. That is to say, thedecrease of value below 0.60 is an evidence of the decrease in the intrinsic validity.

The results of the validity analysis of the research scales can be illustrated by the Cronbach's alpha coefficient for each pivot as follows

### Third pivot: Independence of board directors

Table (3) shows the correlation coefficients between each of the statements of the third pivot and the total degree of its statements.

**Table (3):-** Hows Cronbach's alphatest results for the scale of statements' pivot of the independence of the board of directors.

Statements	Cronbach's alpha.
The board of directorsapproves the annual Plan.	0.94
The board of directors evaluates the executive management's performance.	0.94
The board of director sets up the organizational structures.	0.94
The board of directors complies to practical and beneficial criteria in the selection of its members.	0.97
The board of directors complies toguidelines of the CentralBank.	0.94
<b>Total statements</b>	<b>0.95</b>

It is remarkable from table (3) which reflects the results of the validity test, that the Cronbach's alpha values for all statements of the third pivot variables are larger than (60%). These values indicate that there is a very high degree of intrinsic validity for all statements, whether, for each statement per se or at the level of all statements of the scale. The Cronbach's alphavalue for the whole scaleis (0.95), which is a high validity. Therefore, it can be said that the scales on which the research was relied upon, to measure the statements of the third pivot have intrinsic validity of their statements. This may ensure the reliability of the answers to the said statements in the achievement of the research objectives as well as the analysis of their results.

### Fourth Pivot: financial and administrative performance in the bank

Table (4) shows the correlation coefficients between each of the statements of the fourth pivot and the total degree of its statements.

**Table (4):-** Cronbach's alphatest results for the scale of statements' pivot of financial and administrative performance in the bank.

Statements	AlphaKronbach
Financial performance evaluation indicators provide the different administrative levels with measurement instruments.	0.97

Administrative performance indicators provide the different administrative levels with measurement instruments.	0.97
Financial performance evaluation indicators help detect irregularities.	0.97
Administrative performance evaluation indicators help detect irregularities.	0.97
Treatment of irregularities is performed in accordance with principles and controls ineffectin the bank.	0.97
Financial and administrative performance indicators help in setting up a system for incentives and human organizationin the bank.	0.97
Financial and administrative performance indicators help in comparison between the different activities.	0.97
<b>Total statements.</b>	0.97

It is noticeable from table (4) which reflects the results of the validity test, that the Cronbach's alphavalues for all statements of the fourth pivot variables are larger than (60%). These values indicate that there is a very high degree of intrinsic validity for all statements, whether, for each statement per se or at the level of all statements of the scale. The Cronbach's alphavalue for the whole scale is (0.97), which is a high validity. Therefore, it can be said that the scales on which the research was relied upon to measure the statements of the fourth pivot have intrinsic validity of their statements. This may ensure the reliability of the answers to the said statements in the achievement of the research objectives as well as the analysis of their results.

#### **Secondly: Core data analysis**

This section includes the analysis of the research core data in order to discuss the research hypotheses based on the following steps:

#### **Third pivot data analysis: independence of the board of directors**

The third pivot's statements have been put forward to respondents with the following options to answer: I strongly agree, I agree, neutral, I disagree and I strongly disagree. The arithmetic mean, standard deviation, chi-squared value, and the probability value for the statements of the field are as illustrated in table (5):

**Table (5):-** Frequency distribution, arithmetic mean, standard deviation and chi-square test results for the pivot of independence of board of directors

No	Statements.	Percentage					Arithmetical mean.	Standard deviation.	Chi-square values.	Sig	Significance.
		I strongly agree.	I agree	Neutral.	I disagree.	I strongly disagree.					
1	The board of directors approves the annual Plan.	34.0	54.0	6.0	2.0	4.0	4.1	0.92	53.2	0.00	Acceptance
2	The board of directors evaluates the executive management's performance.	44.0	44.0	8.0	4.0	0.0	4.3	0.78	29.0	0.00	Acceptance
3	The board of director sets up the organizational structures.	38.0	52.0	8.0	2.0	0.0	4.3	0.69	34.3	0.00	Acceptance
4	The board of directors complies to practical and beneficial criteria in the selection of its members.	32.0	32.0	14.0	20.0	2.0	3.7	1.0	16.2	0.00	Acceptance
5	The board of directors complies to guidelines of the Central Bank.	38.0	54.0	6.0	2.0	0.0	4.3	0.67	38.0	0.00	Acceptance
<b>Overall average</b>		37.2	47.2	8.4	6	1.2	4.1	0.81	34.1	0.00	Acceptance

**It is noticeable from table (5) that:**

The statement number (2) which provides for (The board of directors evaluates the executive management's performance) has received the first rank as the highest arithmetic mean. This statement has received (4.3), while the total score is 5, meaning that, the degree of agreement is (92.0%), whereas, the chi value is (38.0). The probability value, on the other hand, is equal to (0.00). Based on this account, this statement is statistically significant at a significant level of ( $\alpha \leq 0.05$ ), which indicates that the average response degree to this statement has exceeded the degree of neutrality, which is (3). This indicates that there is an agreement from the respondents to this statement.

The statement number (4) which provides for (The board of directors complies to practical and beneficial criteria in the selection of its members), has received the last rank, where, the arithmetic mean, is (3.7), meaning that, the degree of agreement is (64.0%), whereas, the chi value is (16.2). The probability value, on the other hand, is equal to (0.00). Based on this account, this statement is statistically significant at a significant level of ( $\alpha \leq 0.05$ ), which indicates that the average response degree to this statement has exceeded the degree of neutrality, which is (3). This indicates that there is an agreement from the respondents to this statement.

It is generally noticeable from table (5) that the arithmetic means for the answers of the respondents to the third pivot statements are ranging from (4.3-3.7). However, all these arithmetic means are greater than the hypothetical

arithmetic mean(3), which represents a great degree of estimation and a significant level at (0.05). Meaning that, they agree to the independence of the board of directors, as explained by the ratios of agreement included in table No (10). The standard deviation's values for the answers of the respondents to the third pivot's statements are ranging from (1.0-0.67). These values indicate great homogeneity in the answers of the respondents to these statements, meaning that, they are largely in agreement. As to the general arithmetic mean it is (4.1), which is greater than the hypothetical arithmetic mean (3). The chi square value is (34.1) for the whole table, which is significant at (0.05) level.

**Table (6):-** Frequency distribution, arithmetic mean, standard deviation and chi-square test results for the pivot of independence of board of directors

	Statements.	Percentage.					arithme tic mean.	Standa rd deviatio n.	Chi value s.	sig	Significan ce.
		I strong ly agree.	I agre e.	Neutr al.	I disagr ee.	I strongl y disagr ee.					
1	Financial performance evaluation indicators provide the different administrative levels with measurement instruments.	48.0	46.0	2.0	4.0	0.0	4.4	0.72	38.8	0.00	Acceptance.
2	Administrative performance evaluation indicators provide the different administrative levels with measurement instruments.	62.0	32.0	4.0	2.0	0.0	4.5	0.67	47.8	0.00	Acceptance.
3	Financial performance evaluation indicators help detect irregularities.	48.0	46.0	2.0	4.0	0.0	4.4	0.72	38.8	0.00	Acceptance.
4	Administrative performance evaluation indicators help detect irregularities.	48.0	42.0	10.0		0.0	4.5	0.67	12.5	0.00	Acceptance.
5	Treatment of irregularities	62.0	32.0	4.0	2.0	0.0	4.5	0.68	47.7	0.00	Acceptance.

is performed in accordance with principles and controls in effect in the bank.											
Financial and administrative performance indicators help in setting up a system for incentives and human organization in the bank.	44.0	46.0	6.0	4.0	0.0	4.3	0.76	32.1	0.00		
Financial and administrative performance indicators help in comparison between the different activities.	28.0	42.0	22.0	8.0	0.0	3.9	0.91	11.9	0.01		
<b>Overall average</b>	48.6	40.9	7.1	3.4	0	4.4	0.7	32.8	0.00	Acceptance.	

**Table (6) indicates the following**

The statement number (2) which provides for (Administrative performance evaluation indicators provide the different administrative levels with measurement instruments) has received the first rank as the highest arithmetic mean. This statement has received (4.5), while the total score is 5, meaning that, the degree of agreement is (94.0%), whereas, the chi value is (47.8). The probability value, on the other hand, is equal to (0.00). Based on this account, this statement is statistically significant at a significant level of ( $\alpha \leq 0.05$ ), which indicates that the average response degree to this statement has exceeded the degree of neutrality, which is (3). This indicates that there is an agreement from the respondents to this statement.

The statement number (7) which provides for (Financial and administrative performance indicators help in the comparison between the different activities) has received the last rank, where the arithmetic mean is (3.9) meaning that, the degree of agreement is (70.0%), whereas, the chi value is (11.9). The probability value, on the other hand, is equal to (0.00). Based on this account, this statement is statistically significant at a significant level of ( $\alpha \leq 0.05$ ), which indicates that the average response degree to this statement has exceeded the degree of neutrality, which is (3). This indicates that there is an agreement from the respondents to this statement.

It is generally noticeable from table (6) that the arithmetic means for the answers of the respondents to the fourth pivot statements are ranging from (4.5-3.9). However, all these arithmetic means are greater than the hypothetical arithmetic mean (3), which represents a great degree of estimation and a significant level at (0.05). Meaning that, they agree to the **financial and administrative performance evaluation in the bank**, as explained by the degree of agreement included in table No (11). The standard deviations' values for the answers of the respondents to the fourth pivot statements are ranging from (0.91-0.67). These values indicate great homogeneity in the answers of the respondents to these statements, meaning that, they are largely in agreement. As to the general arithmetic mean it is (4.4), which is greater than the hypothetical arithmetic mean (3). The chi square value is (32.8) for the whole table, which is significant at (0.05) level.

**Thirdly: research hypothesis test**

The research has discussed and interpreted the findings of the field study based on the information provided by the tables of statistical data analysis.

The research hypothesis provides for: there is a correlation that is statistically significant between the independence of the board of directors and the financial and administrative performance evaluation in commercial banks.

**This research hypothesis was formulated as per the following****Null hypothesis**

there is no any correlation that is statistically significant between the independence of the board of directors and the financial and administrative performance evaluation in the bank.

**Alternative hypothesis**

there is a correlation that is statistically significant between the independence of the board of directors and the financial and administrative performance evaluation in the bank. To prove this hypothesis, the research used the simple regression, which measure the correlation between the dependent variable, which is represented in the statement that: (financial and administrative performance evaluation in the bank), and the independent variable, which is represented in the statement that (the independence of the board of directors). The following table clarifies the results of the analysis

**Table (7):-** Results of regression analysis for the correlation between the independence of the board of directors and financial and administrative performance evaluation in the bank.

Third sub-hypothesis.	Regression coefficient. )B(	T test Value.	Significant level.	Correlation result.
Correlation between independence of board of director and financial and administrative performance evaluation in the bank.	<b>0.96</b>	<b>23.7</b>	<b>0.000</b>	<b>Accepted</b>
Correlation coefficient. R.	<b>0.96</b>			
Coefficient of determination. (R <sup>2</sup> ).	<b>0.92</b>			

**It is clear from table (7) that**

There is a direct strong correlation between the independence of the board of directors and the financial and administrative performance evaluation in the bank, as shown by the value of the correlation coefficient (R) and the regression coefficient (B) as follows.

The correlation coefficient value is (0.96). This value indicates the existence of a correlation between (the independence of the board of directors and the financial and administrative performance evaluation in the bank). The value of the regression coefficient is (0.96). This positive value indicates that there is a direct effect: on (the independence of the board of directors and the financial and administrative performance evaluation in the bank within the research population in question). Therefore, a change in (the independence of the board of directors) amounts to 10%, results in a change in the (financial and administrative performance evaluation in the bank) at (9.6%) rate.

The results of the estimation also indicate that the independence of the board of directors affects the financial and administrative performance evaluation in the bank by 92%, with a determination coefficient of (0.92), and other variables affect by 8%.

The results of the analysis also shown a statistically significant correlation between the independence of the board of directors and the financial and administrative performance evaluation in the bank, according to the (t test) at a significant level of (5%), where the calculated (t) value of the coefficient of the correlation between the independence of the board of directors and the financial and administrative performance evaluation in the bank is (23.7) with a significance level of (0.000) and the value of the same is below the significant level (5%). Based on this

account, the null hypothesis is rejected and the alternative hypothesis is accepted, which provides for: there is a correlation that is statistically significant between the independence of the board of directors and the financial and administrative performance evaluation in the bank within the research community in question.

Based on the results of the statistical analysis explained in the said statements, the third hypothesis is accepted, which provides for: (there is a correlation that is statistically significant between the independence of the board of directors and the financial and administrative performance evaluation in the bank).

### **Research Findings and Recommendations:-**

#### **The research has reached the following findings**

1. The board of directors adhered to the systems related to the parties concerned to ensure that the treatment of irregularities is performed in accordance with principles and controls in effect in the bank.
2. The application of corporate governance guidelines helps in the possibility of the examination and evaluation of the financial and administrative performance efficiency and effectiveness in the bank.
3. The research findings have proved that there is a correlation that is statistically significant between the independence of the board of directors and the financial and administrative performance evaluation in the bank.
4. Based on the referred to above findings, the research recommended the following:
5. The research recommended the activation of the role of the boards of directors in commercial banks by applying their functions and duties, in order to reduce the financial risk.
6. The research recommended the activation of the supervisory role of the Central Bank of Sudan over commercial banks by requiring them to apply the corporate governance guidelines in the selection of the boards of directors.
7. The research recommended qualifying the employees and internal auditors to take on their roles in compliance with the corporate governance guidelines in commercial banks.
8. Preparation of studies and further research in this area, particularly, on the subject of (the significance of diversity of boards of directors in the activation of corporate governance in commercial banks).

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