



**THE EFFECT OF CORPORATE GOVERNANCE ON
FINANCIAL PERFORMANCE: THE CASE OF PRIVATE
COMMERCIAL BANKS AND INSURANCES IN ETHIOPIA**

**Department of Accounting and Finance
Master of business Administration Program**

**BY
Mastewal Simeneh Hailu**

**May, 2024
Addis Ababa, Ethiopia**

**School of Graduate Studies
Business Administration Program**

**The Effect of Corporate Governance on Financial
Performance: The Case of Ethiopian Private Commercial
Banks and insurances**

**A Thesis submitted to Addis Ababa University in partial fulfillment
of the requirements for the Degree of Master of Business
Administration in finance**

BY: Mastewal Simeneh

Advisor: Dr Dakito Alemu

May, 2024

Addis Ababa, Ethiopia

Statement of Declaration

I, Mastewal Simeneh, declare that this thesis entitled "The Effect of Corporate Governance on financial performance: the case of Ethiopian Private commercial Banks and insurances" is outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of the thesis Advisor. To the best of my knowledge, this study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfillment of the degree of Masters of business administration in Finance.

Mastewal Simeneh

Signature _____



Date _____

26/6/24

Certificate of Approval

This is to certify that the thesis prepared by Mastewal Simeneh entitled, "The Effect of Corporate Governance on Financial Performance of Ethiopian Private commercial Banks and Insurances," which was turned in for credit towards a master's degree in business administration in finance, satisfies all requirements set forth by the university and is original and enough quality to be considered acceptable.

Approved by: The Examining Committee

Advisor: Daketo Alemu Signature [Signature] Date 27/06/24

Internal Examiner: Aseaw Kesse Signature [Signature] Date 26/6/24

External Examiner: Tenkir Seifu Signature [Signature] Date 27/6/24

ACKNOWLEDGEMENT

First and foremost, all praise goes to the Almighty God who helped me to accomplish this paper successfully. Secondly, I would like to extend my heartfelt gratitude and indebtedness to my thesis advisor, Dr Dakito Alemu, for his comprehensive support, unreserved commitment, and constructive comments from the beginning to final stage of my work. Thirdly, I would like to take this opportunity to express my deepest regards and appreciation to my beloved family who had shown their holistic willingness to support my academic carrier. Fourthly, I would like to extend my sincere gratitude to all participants and respondents of the study for their contribution. Finally, I thank all those who have helped me directly or indirectly in the successful completion of my research.

Table of Contents

Statement of Declaration	iii
Certificate of Approval	iv
ACKNOWLEDGEMENT	v
List of Figure.....	x
Abbreviations	xi
Abstract	xii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1. Background of the study	1
1.2. Statement of the Problem.....	3
1.3. Research Objectives	4
1.3.1. General objective.....	4
1.3.2. Specific objective..	4
1.4. Hypothesis of study	5
1.5. Significance of the study	6
1.6. Scope of the Study.....	6
1.7. Limitations of the study.....	6
1.8. Organization of study	7
CHAPTER TWO	8
REVIEW OF RELATED LITERATURE	8
Introduction	8
2.1. Theoretical Literature Review.....	8
2.1.1. Concept of Corporate Governance.....	8
2.1.2. Corporate governance and the nature of bank and insurance	10
2.1.3. Theoretical Framework.....	11
2.1.3.1. Agency Theory	11
2.1.3.2. Stakeholder Theory	13
2.1.3.3. Resource Dependency Theory	15
2.1.3.4. Stewardship Theory	17
2.1.4. Financial Performance	19
2.2. Empirical Review.....	20
2.2.1. Board size and Financial Performance.....	24

2.2.2. Gender Diversity on the Board of Directors and financial performance	25
2.2.3. Board Members Educational Qualification.....	26
2.2.4. Audit Committee Size and financial performance	27
2.2.5. Institutional Ownership.....	28
2.2.6. Board Meeting Frequency.....	29
2.3. Literature Gaps	31
2.4. Conceptual Framework of the Study.....	32
CHAPTER THREE.....	34
RESEARCH METHODOLOGY	34
2.5. Research Design.....	34
3.2. Research Approach	34
3.3. Sample and Sampling Technique	34
3.4. Source of Data and Collection Methods	35
3.5. Description of Variables and Measurement	35
3.5.1. Dependent Variables	35
3.5.2. Independent Variables	36
3.6. Data Analysis	38
3.7. Model of Specification	39
CHAPTER FOUR.....	41
4.1. Descriptive Statistics	41
4.1.1. Dependent Variable (ROA and ROE).....	42
4.1.2. Independent Variable	42
4.2. Regression result and Discussion	44
4.2.1. Testing Assumptions Classical Linear Regression Model (CLRM).....	44
4.2.1.1. Test for heteroscedasticity assumption ($\text{var}(u_t) = \sigma^2 < \infty$).....	45
4.2.1.2. Test for multicollinearity	46
4.2.1.3. Test for absence of Autocorrelation.....	46
4.2.1.4. Test for Normality ($u_t \sim N(0, \sigma^2)$).....	47
4.2.1.5. Choosing among Fixed Effect & Random Effect Model.....	48
4.2.2. Regression results for (ROE and ROA).....	50
4.2.2.1. Random Effect Regression analysis of ROA and ROE	50
4.3. Summary of hypothesis test	58
CHAPTER FIVE.....	59
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	59

Introduction	59
5.1. Summary of Findings	59
5.2. Conclusion.....	60
5.3. Recommendation.....	62
5.4. Area of Further Research	63
REFERENCES.....	65
<i>APPENDICES</i>	76
Appendix I: RESEARCH QUESTIONNAIRE.....	77
Appendix II: STATA Output	79
Appendix III: list of bank and insurances	80

List of Table

Table 3.1: Summary for description of variables and measurements	38
Table 4.1: Summary of Descriptive Statistics	41
Table 4.2: Breusch-Pagan for Heteroscedasticity	45
Table 4.3 Multicollinearity test for the Study Variables	46
Table 4.4: Durbin-Watson Test for Autocorrelation.....	46
Table 4.5 Random effect model regression result ROA.....	51
Table 4.6 Random effect model regression result ROE	52
Table 4.7 Summary of Hypothesis test.....	58

List of Figure

Fig. 2.1: Agency Theory Model	12
Figure 2.2: Stakeholder Theory Model.....	14
Figure 2.3: Resource Dependence Theory Model	16
Figure 2.4: Stewardship Theory Model.....	18
Figure 2.5: Conceptual Framework	33
Figure 4.1: Normal P-P Plot of residual for dependent variables.....	48

Abbreviations

ANOVA	Analysis of Variance
AUDS	Audit committee size
BEQUAL	Board educational Qualification
BMF	Board meeting frequency
BSZ	Board Size
BGD	Board gender diversity
CLRM	Classical Linear Regression Model
CGD	Corporate Governance Disclosure
GDP	Gross Domestic Products
ICT	Information Communication Technology
IOWN	Institutional ownership
IT	Information Technology
NBE	National Bank of Ethiopia
OLS	Ordinary Least Square
ROA	Return on Asset
ROE	Return on Equity
SPSS	Statistical Package for the Social Sciences
US	United States
VIF	Variance Inflation Factor

Abstract

This study investigates the effect of corporate governance on the financial performance of Ethiopian private commercial banks and insurance companies. Specifically, the study examines how board size, board gender diversity, board member educational qualifications, audit committee size, institutional ownership, and board meeting frequency influence performance, measured by Return on Assets (ROA) and Return on Equity (ROE). The sample consists of 29 private commercial banks and insurance companies purposively, which is 16 were private commercial banks and 13 were private insurances, utilizing balanced panel data from 2019 to 2023 Collected from the bank and insurance companies' audited accounting records and questioners for board secretaries. Descriptive and inferential statistics, including the multiple linear regression approach of the Ordinary Least Square (OLS) model, were employed for analysis. The Random Effect model was selected based on the Hausman test results. Key findings of the regression result indicate that larger board sizes negatively impact financial performance, while gender diversity, higher educational qualifications among board members and Institutional ownership positively related with financial performance. Regular board meetings contribute to better financial performance, but the board size and institutional ownership have insignificant effect on ROE. Although the size of audit committees does not significantly influence on banks and insurances financial performance As a result, the study comes to the conclusion that the financial performance of insurance and bank businesses is not significantly impacted by some corporate governance measures. The conclusions emphasize the importance of optimizing board composition, enhancing gender diversity, and encouraging institutional investment to bolster financial performance in the banking and insurance sectors in Ethiopia. The recommendation include streamlining board sizes, promoting gender diversity, prioritizing board members' educational qualifications, improving audit committee effectiveness, attracting institutional investors, and ensuring regular and strategic board meetings is important for financial performance of banks and insurances.

Key Words: *Corporate Governance, Financial Performance Ethiopian Banks, Ethiopian Insurance Companies.*

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

According to Jensen & Meckling, 1976 Modern corporations have an agency problem when ownership and control are separated, allowing the agent to run the business in their own best interests rather than the interests of the shareholders. Company governance is required because of these potential conflicts of interest within stakeholders, which include shareholders, the board of directors, and management inside the company structure.

It is difficult to provide a precise and broadly applicable definition of corporate governance because of the wide range of theoretical stances that are available and the variations in corporate governance practices across national boundaries. A comparably broad definition is provided by the Organization of Economic Co-operation and development (OECD) which defines corporate governance as the system by which business corporations are directed and controlled. The interaction between shareholders, the board of directors, top management, workers, regulators, any other stakeholders, and the community in defining the direction and performance of the firm is characterized as corporate governance, according to Ruin. Ensuring that a corporation is operated effectively and that investors obtain a fair return is the goal of corporate governance (Magdi and Naderah, 2002). It provides the framework for ensuring that the objectives of an organization are met in a way that benefits all parties involved. Establishing policies and processes to ensure transparency, accountability, fairness, moral rectitude, and adherence to the law is a component of corporate governance (Team IRIS CARBON, 2023). Good corporate governance can translate to rising share prices, it can lessen the potential for financial loss, waste, risks, and corruption, and it is a game plan for resilience and long-term success (James, 2023).

Corporate governance is a collection of various groups playing various functions. Various mechanisms adopted to protect the interests of the stakeholders (Sanda et al., 2005). Such as; board size, board of director's educational qualification, gender diversity, audit committee size, Institutional ownership and board meeting frequency.

Regarding the relationship between corporate governance and financial performance, a well-defined and functioning corporate governance system helps a firm to attract investment, raise funds, and strengthen the foundation for firm performance; good corporate governance creates transparent rules and controls, provides guidance to leadership, and aligns the interests of shareholders, directors, management, and employees (UKEssays, 2018). It helps to build trust with investors, the community, and public officials, Corporate governance can provide investors and stakeholders with a clear idea of a company's direction and business integrity, It promotes long-term financial viability, opportunity, and returns, It can facilitate the performance of the company.

Bank and insurances are one of the financial institutions and they are the economies most important and influential sectors. They can lead the economic growth if there is a strong system, while a failing system can drag down a nation's economy. According to Jadi, 2015 and Shan, 2018 a significant portion of the financial sector in both developed and developing countries is the insurance industry. It is essential to a nation's economic development because it encourages long-term savings, money transfers, risk management, and the growth of capital market support. In order to sustain both the local economy and the communities in which they operate, banks are essential. As an intermediate between depositors and borrowers, banks are essential because they safeguard client deposits and provide credit to both corporate and individual borrowers. The economy functions smoothly and efficiently because of this cooperative process, which also offers chances for property ownership, the pursuit of profitable employment through company investments, funding for postsecondary education, and the consumption of a wide range of goods and services. Banks purchase intermediate inputs and supplies, such as consultants, computer equipment, and soft goods, and produce notable economic advantages. They also appoint a large number of workers. Each of these improves the countries' economies (Thornberg, 2012). Corporate governance plays a crucial role in the banking and insurance sectors due to their systemic importance in the economy and their potential impact on financial stability.

Considering the above statement Research on corporate governance practices in less developed nations, especially in Ethiopia, has received little attention. The purpose of this initiative is to inform Ethiopia's banking and insurance sector on the advantages of sound corporate governance

practices and their influence on financial performance, enabling them to take advantage of every chance to compete both domestically and globally.

1.2. Statement of the Problem

Perhaps the most significant cause attributed to the economic and business crises-related consequences of company failure is the inadequacy of corporate governance. For the banking and insurance industries, as well as the economy as a whole, effective corporate governance is critical. By transferring money from savers and depositors to business ventures and economic growth, banks play a crucial role in the economy, because banks' soundness and safety are essential to their continued existence, how they do business is crucial to the state of the economy (Fernandes et al., 2018). By facilitating capital formation, financing development, providing financial security, and fostering trade and commerce, the insurance industry plays a critical role (Kiptoo et al., 2021). Inadequate governance at major players in the financial system, such as banks and insurance companies, can spread difficulties throughout the financial industry and the economy overall.

In light of how important corporate governance is, a number of studies have been done, regarding the connection between corporate governance and financial performance, Nguyen, et al (2020) studied Governance practices and bank performance: A case study of the banking industry in Vietnam, Muhammad et al. (2023) studied corporate governance and bank performance: evidence from banking sector of Pakistan, Jude, et al (2019) studied Corporate Governance and Bank Performance in Nigeria, Isaac et al. (2021) studied Corporate governance and financial performance of insurance firms in Kenya, Rajendra (2019) studied Corporate Governance and Financial Performance of Insurance Companies in Nepal, and Muhammad et al (2023) studied Corporate governance and bank performance: evidence from banking sector of Pakistan. However, they have been conducted on sizable businesses that are part of well-functioning corporate governance structures and nations having capital markets. As a result, applying the same conclusion from research conducted is difficult to determine how corporate governance affects banks' and insurance businesses' performance.

In Ethiopia Kibrysfaw, G. (2013) Studied Corporate Governance Mechanisms: Impact on Performance: Ethiopian Commercial Banks, Bayelign, Ayalew & Sitotaw (2022) studied corporate governance and financial performance in the emerging economy: The case of Ethiopian insurance companies, Habtamu (2012) studied The connection between financial performance and company governance structure and Kefiyalew and Dagnachew(2020) studied Corporate governance and its effects on financial performance of banks evidence from selected private commercial banks in Ethiopia, But the studies done are limited in light of its impact on the economy, and they didn't conducted on both private commercial bank and insurances of corporate governance and financial performance, and These studies had limitations in regard to the variables(CG mechanisms) like institutional ownership and meeting frequency and have limitation on sample size which is they include less than 10 financial institutions,

According to the financial times Ethiopia has taken the first steps towards liberalizing its tightly controlled financial sector by granting a business license to a foreign-owned company for the first time. Because of this Ethiopian financial sector may face a significance computation challenge if they continue in a normal way. So, Enhancing the governance and capacity of financial sector using a corporate governance lens is an important part of the agenda.

Considering this as well as the banking and insurance sector's potential to boost developing nations' economies and to bridge the above knowledge gap this study aimed at to assess the effect of corporate governance on financial performance in Ethiopian banks and insurances to prepare them for the high level of competition and to provide additional literature about the corporate governance of bank and insurances.

1.3. Research Objectives

1.3.1. General objective

The general objective of the study is to identify the effect of corporate governance on financial performance in Ethiopian private banks and insurances.

1.3.2. Specific objective

- To examine how board size affects Ethiopian banks' and insurance companies' financial performance.

- To examine how Board gender diversity affects Ethiopian banks' and insurance companies' financial performance.
- To examine how Board members educational qualification affects Ethiopian banks' and insurance companies' financial performance.
- To examine how Audit committee size affects Ethiopian banks' and insurance companies' financial performance.
- To examine how board meeting frequency affects Ethiopian banks' and insurance companies' financial performance.
- To examine how Institutional ownership affects Ethiopian banks' and insurance companies' financial performance.

1.4. Hypothesis of the study

Based on the previous literature the following testable hypotheses were developed

H1: The financial performance of banks and insurance companies is negatively impacted by large board sizes.

H2: The presence of women on the board of directors of banks and insurances has a positive effect on bank financial performance.

H3: Board Members Educational Qualification has a positive effect on a banks and insurances financial performance.

H4: Audit Committee Size has a negative effect on a banks and insurances financial performance.

H5: Institutional ownership has a positive effect on banks and insurances financial performance.

H6: Board meeting frequency has a positive effect on banks and insurances financial performance.

1.5. Significance of the study

By highlighting pertinent corporate governance practices and how these practices impact financial performance, the study's findings benefit commercial banking and insurance companies. The study's findings add to the body of knowledge by demonstrating the connection between corporate governance practices and the financial success of banks and insurance companies. The research findings would also serve as broad indicators of corporate governance practices that regulators, legislators, managers, and businesspeople might utilize when formulating policies and choices. It can serve as a foundation for upcoming researchers wishing to investigate connected subjects.

1.6. Scope of the Study

This study's focus is on how corporate governance practices affect businesses' financial performance. Data from Ethiopian commercial banks and insurance companies is used to inform this analysis during a five-year period, starting in 2019 and ending in 2023. Return on equity and return on asset are the dependent variables. The size of the audit committee, the frequency of board meetings, institutional ownership, board size, the diversity of genders on the board, and the educational background of the directors are the explanatory variables. This study's scope is restricted to Ethiopia's private commercial banks and insurance companies.

1.7. Limitations of the study

There are some limitations on this study, just like with any other. Purposively, the sample banks and insurances for this study were chosen according to the availability and age of the data. This could add bias because non-probability sampling methods have bias by nature. And the other one is, in order to quantify bank financial performance, an accounting-based return of return on asset (ROA) and return on equity (ROE) was used instead of market-based returns because of lack of secondary market. These limitations should be taken into account when interpreting the study's conclusions and Future investigators in this discipline should try to avoid these when they carry out additional research.

1.8. Organization of study

The research consists of five chapters. The first chapter contains the background of the study, the background of the organization, statements of the Problem, Objectives of the study, limitation significance of the study. The second chapter provides a review of related literature. The third chapter presents research design and methodology. The fourth chapter of the study includes a discussion of the findings from the regression analysis and descriptive statistics. Finally, the last chapter five provides a summary of major findings, a conclusion, and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter deals with the review of the related literature to the topic under study. The first section of this chapter has been discussed concepts and principals of corporate governance, bank and insurance and the literature related to the study variables (corporate governance and financial performance) which are considered to lay solid foundation for the research. Then a brief summary of some of the related previous work on this study have been discussed. Finally, the chapter illustrates the key study variables as presented in the conceptual framework.

2.1. Theoretical Literature Review

2.1.1. Concept of Corporate Governance

In public and scholarly discourse, the word "corporate governance" is relatively recent, but the issues that it seeks to solve date back much farther according to Berle and Means (1932) and the even earlier Smith (1776).

Corporate governance, as defined by Shleifer and Vishny (1997), is "the processes by which lenders to businesses ensure that they will receive a return on their investment". Caramanolis-Cötelli (1995) proposed a concept similar to this, who believes that the distribution of equity between insiders—such as directors, executives, CEOs or other individual, corporate or institutional investors connected to management and outside investors determines corporate governance.

"Corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected," according to an expanded definition put forth by John and Senbet (1998). In addition to debt holders and shareholders, they also consider non-financial stakeholders like consumers, suppliers, workers, and other interested parties as stakeholders. Hart (1995) closely shares this view as he suggests that "corporate governance issues arise in an organization whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving

members of the organization – these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract”.

Classens (2003) argues that corporate governance definitions, although widely varied, can be categorized into two sets. The first set of definitions addresses a collection of behavioral patterns that encompass the real behavior of the company, including its growth, performance, efficiency, financial structure, and how it treats its stakeholders and shareholders. The normative framework is covered in the second set of definitions. Corporate governance is founded on the laws and regulations that regulate the operation of businesses, such as those governing the financial, legal, labor, and factor markets. Mori (2014) defined corporate governance as the entirety of the institutional, cultural, and legal framework that specifies the powers and authorities of publicly traded companies, as well as who controls them, how they are controlled, and how their activities, risks, and profits are distributed.

According to OECD (2004), The interactions that exist between a company's shareholders, management, board, and other stakeholders are known as corporate governance. While there isn't just one ideal kind of company governance, the Organization for Economic Co-Operation and Development (OECD, 2004) offered some guidelines that are based on shared components of many existing models. Distinct from the day-to-day operational administration of the firm by full-time executives, corporate governance pertains to the actions and values established by the board of a corporation (Gyamerah & Agyei, 2016).

The precise definition of corporate governance that establishes its boundaries does not exist. The term "corporate governance" is defined by a number of authors and organizations, however, generally speaking, it refers to a set of rules and laws that prevent conflicts of interest and strengthen the bonds between the board of directors, management, shareholders, and other interested stakeholders of the business. Some common elements are shared, either implicitly or explicitly, by all of these different definitions. They all touch on the possibility of insider and outsider conflicts of interest, concentrating on those arising from disagreements over ownership and control over how a company distributes its wealth. There is also considerable agreement that the substantial uncertainty, knowledge imbalances, and contractual costs in the relationship between capital providers and insiders will prevent complete contracting from effectively addressing this corporate governance issue. (Maharjan, 2019; Monde & Giorgino, 2013).

According to Riyadh et al. (2019), corporate governance refers to the collection of rules and regulations that ultimately produce a more responsible organisation, which in turn increases the company's leverage.

2.1.2. Corporate governance and the nature of bank and insurance

Corporate governance plays a crucial role in the banking and insurance sectors due to their systemic importance in the economy and their potential impact on financial stability (Choudhry, T. 2012). Banks and insurance companies are exposed to various risks, including credit risk, market risk, liquidity risk, and operational risk. Effective corporate governance ensures that these risks are identified, assessed, and managed appropriately; Boards of directors are responsible for overseeing risk management frameworks and ensuring that they are robust and aligned with the institution's risk appetite and strategic objectives (John, K., & Senbet, L. W. 1998). The banking and insurance industries are highly regulated, with stringent requirements imposed by regulatory authorities to safeguard the interests of depositors, policyholders, and the broader financial system. Corporate governance frameworks in these sectors must ensure compliance with applicable laws, regulations, and industry standards, this includes implementing appropriate controls, reporting mechanisms, and internal audit functions to monitor compliance and mitigate regulatory risks.

Transparency is essential for maintaining public trust and confidence in banks and insurance companies. Corporate governance practices should promote transparency through clear and timely disclosure of financial information, risk exposures, governance structures, and executive compensation arrangements. Transparency enhances accountability and enables stakeholders to make informed decisions about their investments or insurance coverage banks and insurance companies interact with a wide range of stakeholders, including shareholders, policyholders, regulators, employees, and the community(Lipton, M., & Lorsch, J. W. 1992) Effective corporate governance involves engaging with these stakeholders in a transparent and constructive manner. Regular communication, feedback mechanisms, and stakeholder consultations can help build trust, manage expectations, and address concerns, ultimately contributing to the institution's long-term sustainability. Overall, strong corporate governance is essential for ensuring the stability, integrity, and soundness of banks and insurance companies. By promoting effective risk management, regulatory compliance, transparency, and stakeholder

engagement, corporate governance frameworks help safeguard the interests of stakeholders and maintain confidence in the financial system.

2.1.3. Theoretical Framework

Various theories have been put forward to help us understand the concept of Corporate Governance. Neuman (2006) defines a theory as a system of interconnected ideas that condense and organize knowledge about the world. Several critical corporate governance theories have been developed over the years. Stewardship theory, the agency theory, resource dependency theory and the stakeholder theory are the main theories underlying the concept of corporate governance (Mulili and Wong, 2010).

2.1.3.1. Agency Theory

It is generally agreed upon that this theory forms the basis for all other theories of corporate governance. The fundamental focus of this theory is the fundamental connection between shareholders and management. According to this perspective, management serves as the owners' representative while shareholders operate as principals (Khan, 2011). Although shareholders are the ones that hire managers, their primary goal is to enhance their own income, not to raise the wealth of the shareholders. As a result, a conflict of interest arises, which causes the principal and agent's relationship to have an agency problem.

The economic theory, put out by Adam Smith in 1776, is the source of agency theory. Adam Smith examined the first-ever separation of ownership and control. He said that a manager who oversees all business operations would not be very interested in the company since he would be investing his own money and pointing out instances of neglect (Smith et al., 1977). Subsequently, Jensen and Meckling (1976) elaborated on the agency theory by defining it as a contract between management and owners. Additionally, verifying whether or not the agent is working in the principal's best interest. The foundation for this is that there is an inherent conflict of interest between the principal and the agent. Furthermore, the issue of information asymmetry may also lead to a dispute between management and shareholders (Lozano, et al., 2016). Consequently, the theory recommended that directors who are not executives be appointed to the directors' board in order to supervise the managers' performance. In order to guarantee decision-making independence, the board should also be set up with separate directors to prevent conflicts

of interests. Rouf (2012) also point out that an independent board of directors significantly affects the success of a business. Figure 2.1 illustrates on the agency model.

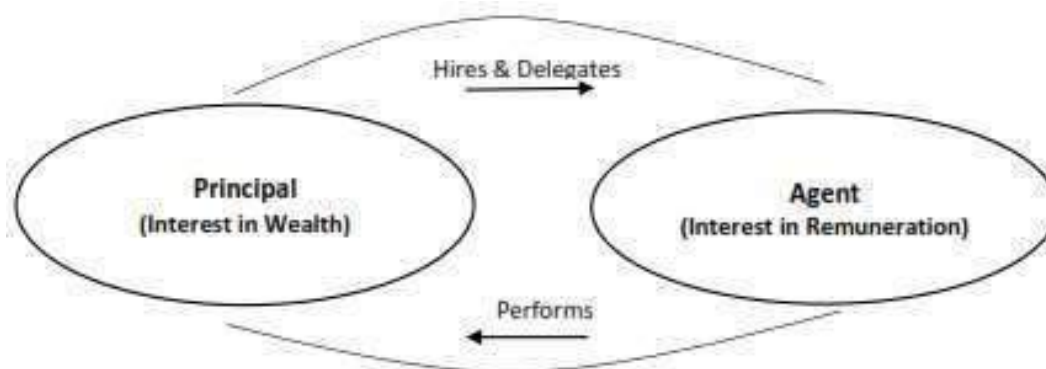


Fig. 2.1: Agency Theory Model

Three categories were established by a range experts and economists to categories agency issues. Principal-Agent Problems are the first class of problems that have its roots in the operations of large corporations. Once managers are granted authority by the ownership group over the management of the business, their main goal is increasing their own earnings rather than the interests of those who own it. The type 2 problem is called the principal-principal problem. This issue affects both major and little owners in big companies. The major owners can sway decisions in their favour because they have a substantial voting power. A disagreement that develops between creditors and owners as a result of choosing to finance riskier firms is referred to as the principal-creditor problem, or the Type 3 conflict (Panda & Leepsa, 2017; Yusoff & Alhaji, 2014).

In general, agency theory focuses on managements' enigmatic attempts to priorities their own interests ahead of the owners'. Consequently, because the corporate governance process requires the board of directors to take various actions, including the creation of multiple committees, the cost of resolving agency problems is increased (Yusoff & Alhaji, 2014). In order to keep an eye on performance managers and align the interests of both parties, A key component is the board of directors. The audit committee acts as a proxy for the board of directors, monitoring management behavior and making sure it is in line with shareholder interests. Moreover, agency theory states that the appointment of distinct directors is necessary for management to operate successfully and efficiently (Camelia & Daniela, 2020).

Additionality studies indicate plans for performance-based rewards will incentivize managers to maximize revenue and reduce the possibility of opportunistic behavior (Khan, 2011). On the other hand, conflicting opinions on this suggestion also exist. According to Afza and Nazir (2014), managers' relevance and function are minimized when managers' performance is compensated. However, establishing a link between pay and performance as well as a relationship with a healthy atmosphere is the recommended way to resolve all of these problems (Koutoupis, et al., 2021).

2.1.3.2. Stakeholder Theory

Stakeholder theory is the further expansion of agency theory. Some claim that because agency theory only takes stockholders' interests into account; its use is limited.. According to the stakeholder theory, a company should provide value for all parties involved, not only shareholders (Freeman et al., 1984). However, because it addresses the function of corporate governance, the scope of the stakeholder theory is thought to be wider (Yusoff & Alhaji, 2014). This theory is predicated on the ideas that managers ought to act in the best interests of all parties involved and that the board of directors ought to keep an eye on managers' performance. The present circumstance, where enterprises must take into account the interests of all parties concerned, broadens the application of the idea (Schmid, 2006).

According to Arora and Sharma (2016), a stakeholder is any group or person that can influence or be affected by an organization's decisions. Over time, various perspectives and modifications have been added to the stakeholder theory, expanding its scope and including all residents of the community in which enterprises are located, along with their workers, suppliers of raw materials, the regional community, and competitors, significant components of the theory (Freeman et al., 2004).

According to stakeholder theory, a business should aim to strike a balance and boost everyone's interests of The stakeholders it serves in order to provide reimbursement to each of them. It is stated that a firm's primary duty is no longer to serve its own interests; instead, it must also look out for the interests of society as a whole. Stakeholder theory therefore offers a far greater range of corporate governance. On the other hand, the company's stakeholders include its workers, clients, lenders, suppliers, rival businesses, shareholders, investors, governments, banks, and the general public (Ferrer, et al., 2012).

Stakeholder theory was first ingrained in the management discipline, but as time went on, new modifications and perspectives emerged beneath it, and it is today regarded as a crucial theory inside the corporate governance framework. One of the main advantages of stakeholder theory is that it can assist in strategy formulation and the assessment of venture dangers (Barney & Harrison, 2020).

In the current business climate, creditors, Suppliers, employees, possible investors, governmental organizations, and others are entities with either an indirect or direct stake in business activities. Trade associations, local communities, lenders and people in general there are other parties besides owners and stockholders that are more interested in the success of the company. This concept enhances the stakeholder theory by acknowledging and taking into account the goals of all stakeholders. Handling all parties equitably is vital, according to this theory (Harrison et al., 2015; Klepczarek, 2017). The many stakeholders that might be impacted by an organization's decision-making are presented in Figure 2.2.

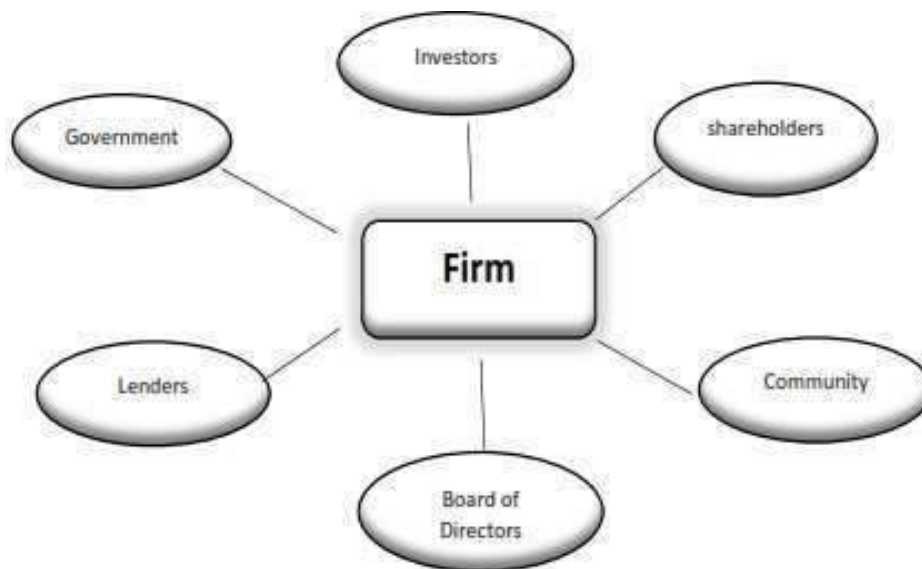


Figure 2.2: Stakeholder Theory Model

Subsequently, the stakeholder theory came under criticism because Barney & Harrison (2020) argued which a firm's Success ought to be judged by more than just the money a company makes for its backers. When carefully examining corporate governance theories, the stakeholder theory

takes center stage as it makes the claim that its governance mechanism serves the interests of all stakeholders.

2.1.3.3. Resource Dependency Theory

Stakeholder and agency theory concentrated on the interactions between managers and various social groups, whereas the significance of resource accessibility in the context of corporate governance discourse is underscored by the idea of resource dependency. It was in 1978 when Pfeffer and Salancik formulated this theory. Resource dependency theory is the study of how an entity's outer environmental resources affect its behavior. The main thrust of this idea is that directors need to create links between the company and the external environment in order to match the company's capabilities with the changing trends in the external environment and these external environments (Klepczarek, 2017; Yusoff & Alhaji, 2014).

According to the theory, a company's board plays a crucial role in providing resources to managers, who then use them to accomplish organizational goals (Dalziel & Hillman, 2003). The theory's suggests that the board backs the human, finance, intangible, and executive The main thrust of this idea is that directors need to create links between the company and the external environment in order to match the company's capabilities with the changing trends in the external environment. Executives can enhance their performance and abilities by receiving training and mentorship from board members who possess experience and professionalism. Board members can bring in crucial resources by connecting the organization with their own networks.

In accordance to the theory, a company's board plays a crucial role in providing items to managers, who then use them to accomplish organizational goals (Hillman & Dalziel, 2003). The hypothesis suggests that the board support the financial, human, invisible, and executive aspects. Executives can enhance their efficiency and abilities by receiving training and mentoring from members of the board who possess experience and professionalism. Additionally, by bringing in essential resources through personal connections, board members can help the organization. The theory is that most decisions for the company should be made by the CEO, with certain recommendations going to the board for approval. Stakeholder theory in the banking sector is centered on meeting the needs of depositors, owners, and other pertinent parties through an efficient governance framework that promotes transparency and trust (Klepczarek, 2017).

Resource dependency theory highlights the ways in which the board of directors' links with the world beyond enables them to obtain and protect important resources for the business. Resources encompass skills, expertise, and relationships to serious organizations. Four types of directors exist: insiders, business professionals, support specialists, and important members of the community. Primarily insiders are executives that have worked for the company in both the current and past and may provide insight into its overall operations and overall trajectory. Second, because they are both current and former directors of large firms, the business specialists provide understanding of company strategy and decision-making. Third, the support experts are the appointed representatives for banks, lawyers, and other enterprises; they provide assistance within their own areas of competence. In the end, the community's important members include scholars, political figures, and advocates of social and civic groups (Yusoff & Alhaji, 2014). Figure 2.3 depicts the resource dependence theory.

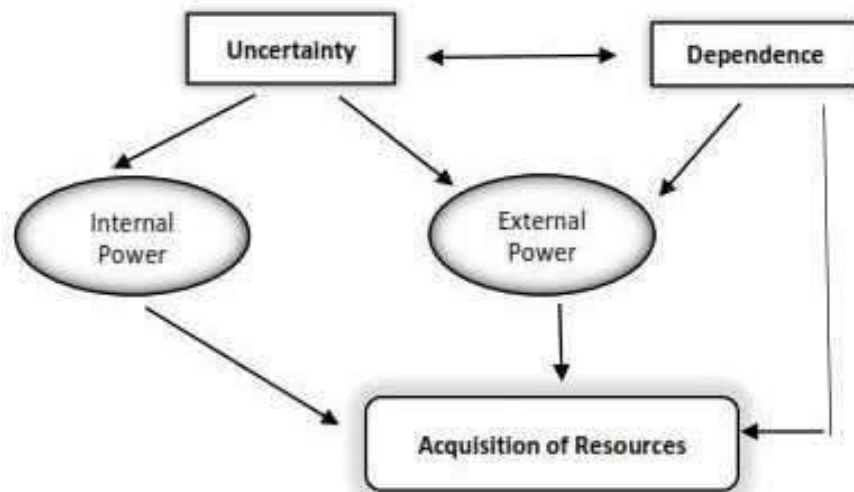


Figure 2.3: Resource Dependence Theory Model

Thus, based on the previously discussed director classifications, the board may offer the company the next four major advantages: first, advice and counsel services; second, legitimacy; third, channels for information sharing between the firm and external organizations; and fourth, access to commitments or support from outside elements (Callaghan et al., 2016). Thus, it is presumed that the board's ability to connect the organization with the best resources and maintain the company's excellent financial performance depends on having a varied group of directors.

2.1.3.4. Stewardship Theory

Stewardship theory, which is predicated on the theory that managers should behave as stewards, is one important theory of corporate governance. Stewardship theory was developed by Donaldson and Davis (1991) and Donaldson and Davis (1993). Compared to agency theory, stewardship theory presents a distinct picture of management by considering managers as stewards who will act in the shareholders' best interests. Psychology and sociology supply the theoretical foundations for stewardship theory. Pursuant to this concept, administrators will always work in the company's greatest advantage maintain and maximize earnings for investors (Khatib, et al., 2022).

According to stewardship theory, there won't be a principal-agency conflict if Stewards coincide with their goals with those of the principal (Klepczarek, 2017). Essentially, the two sides attain their long-range objectives by not having competing priorities when steward's and the principle's interests align. The notion also highlights the idea that executives and managers of a corporation act as stewards and ought to be on the board of directors. The extant literature, that contends that the managements ought to include a portion of a board, concurs with this point of view (Yusoff & Alhaji, 2014).

The distinct characteristic of stewardship theory is its ability to enhance management trust, something that agency theory cannot provide. According to Yusoff & Alhaji, (2014), the stakeholder theory presupposes that insider directors possess greater knowledge of the company's performance and operations than outsider directors. Stakeholder theory also presupposes that managers uphold and defend the interests of shareholders by making the best choices to boost shareholder value. Stewardship theory, as opposed to agency theory, holds that management and inside directors are the most effective in serving the interests of shareholders (Khan, 2011). Figure 2.4 describes the stewardship theory model.

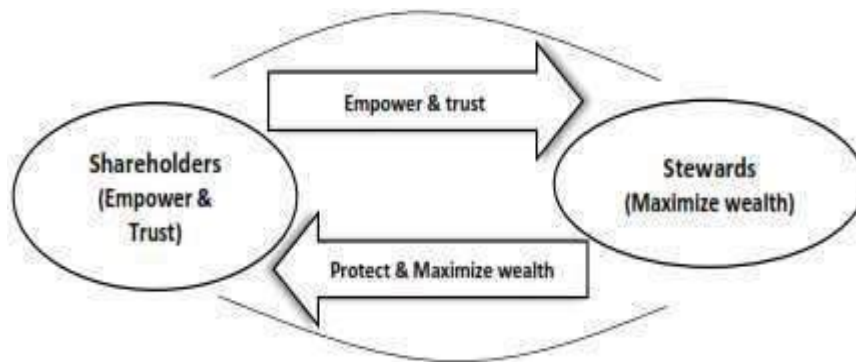


Figure 2.4: Stewardship Theory Model

According to Yusoff and Alhaji (2014), stewardship theory is predicated on the idea that managers would maximize their value if shareholders provide them greater authority and confidence. This theory asserts that shareholders will gain from increased earnings and gains on the investments they make, while managers will be able to reap intrinsic as well as extrinsic benefits (Abdullah & Benedict, 2009). The positive relationship that this ideology portrays among management and the shareholders is one of the requirements for good corporate governance. Understanding how managers might be motivated to contribute to the accomplishment of company goals is the main focus of stewardship theory. As a result, harmonizing the interests of the owners (principals) and managers (agents) forms the basis of the theory (Camelia, et al., 2020).

All of the aforementioned ideas are significant and have merits of their own when researching corporate governance. Due to their strong correlation, the several theories previously described form the foundation of this research paper's theoretical framework. Because ownership and control are separated in the scenario of banking and insurance firms, many forms of conflict arise between various parties (property rights theory). In order to preserve effective leadership, financiers appoint outside, experienced CEOs who may take advantage of the knowledge vacuum to strengthen their own positions and reap personal gains (entrenchment theory). The owners must create an effective corporate governance structure capable of satisfying the appropriate parties involved in banking activities, such as depositors and debtholders, by hiring outside, independent specialists (resource dependence theory) in order to prevent such outcomes (stakeholder theory). In order to achieve better performance, bank CEOs are expected to collaborate and engage with all stakeholders once they have gained control and motivation.

2.1.4. Financial Performance

In this study, researcher attempts to empirically investigate the impact of corporate governance practice on banks and insurances performance in the context of banks and insurances operating in Ethiopia. Thus, dependent variable of the study is financial performance. According to Damanpour and Arvind (2011), performance is an organization's capacity to manage all four systemic processes inputs, outputs, transformations, and feedback effects in order to achieve its objectives. Performance is often how outside parties assess a company's competence. This suggests the reason why a firm's performance acts as a mirror. Performance, as defined by Richard et al. (2009), is an organization's actual output or outcomes compared to its expected outputs (or goals and objectives). It might be seen as the company's productivity and efficiency within the parameters of the market in which it competes. It depends on how well a company uses the resources it has from its primary function of doing business to the income it subsequently generates (Omondi & Muturii, 2013). Performance is regarded as the results attained in achieving a company's both its internal and external goals (Liao et al., 2010).

According to Alame et al. (2011), performance is an multifaceted structure consisting of four parts: performance related to the market and finances, performance focused on the customer, performance related to human resources, and performance related to products or services. Revenue, profitability, earnings per share, market position, and similar metrics are examples of financial and market performance indicators. Customer satisfaction and employee satisfaction are examples of human resource performance metrics that are customer-focused. The present study mainly focusses on bank and insurance financial performance measures.

Omondi & Muturi (2013) constitute financial success as the use of financial metrics to assess the degree of fulfilment of objectives and their contribution to the bank's provision of investment opportunities. Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished (Ujunwa, 2012). It gauges how well a business can use resources from its main line of business to produce income (Heremans, 2007). It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Chabachib, et al., 2019).

According to Simpson and Kohers (2012), a company's financial performance is gauged by how successful it is in terms of its production, including return on assets, expenditure return, annual profit, payback period, total revenue, and the value generated. Financial statements provide a formal record of a business' financial activities and position. Financial information is presented in an understandable and structured manner. A couple of the financial metrics asserted by Simpson & Kohers (2012) are sales profit margins, growth, revenue, net interest income, return on equity, stock prices, return on assets, liquidity ratio, operating expenses/income, and capital adequacy. For judging a company's financial success, however, two methods are usually used: return on equity (ROE) and return on assets (ROA). ROA, or return on assets, is a statistic that compares income to total assets and showcases how well bank management uses company assets to create revenue. A financial ratio called return on equity (ROE) measures a company's profit margin relative to the total amount of equity played a role by its shareholders and what the shareholders expect in return for their investment (Enad & Gerinda, 2022).

2.2. Empirical Review

This section also analyzes the state of empirical research on the relation of corporate governance and firm financial performance. Research by Rashid, et al (2010) examined the impact of board composition on the financial performance of Bangladeshi enterprises, specifically in relation to the participation of external independent directors. Between 2005 and 2009, information was gathered from ninety non-financial companies that were listed on the Dhaka Stock Exchange (DSE). The study revealed no noteworthy correlation between board composition in terms of representation from external independent directors and firm performance. This finding suggested that the independent external director could not provide the Bangladeshi company with additional economic benefit. Based on the performance metrics, it was found that the size of the board had a negative and substantial impact on the financial performance of the organization. This suggested that there are informational asymmetries between other directors and external, independent directors. The results also showed that external independent directors from Bangladeshi firms were unable to guarantee that management activities and accounting procedures had checks and balances. From a policy perspective, the study's conclusions will be

useful in giving regulators more information to assist them aligns Bangladesh's corporate governance practices with global best practices.

Yenesew (2012) conducted research on eight commercial banks in Ethiopia using data spanning five years, from 2007 to 2011. Three financial performance metrics were used in the studies: the net interest margin, return on equity, and return on asset. The study employed many corporate governance factors, such as board size, gender diversity, educational quality of board members, and expertise in company management, industry-specific experience and size of audit committee. According to the results of his research, a big board and an audit committee have a negative impact on financial performance, while a board member's educational background, expertise in a particular industry, and composition have positive effects.

Rouf (2012) investigated the connection between listed non-financial enterprises in Bangladesh's accreditation of dissemination about corporate governance (CGD) and profitability, or financial performance. The 94 listed companies that made up the study's sample have their 2007 annual reports from which data were gathered. Forty components of information performance and financial performance that is profitability as determined by return on assets (ROA) were used to gauge corporate governance disclosure. A rating sheet was made to the level of corporate governance disclosures following the creation of the disclosure index. The positive profitability of the company was shown to be related to CGD, which in turn was positively correlated with the board audit committee and the return on equity. The ownership structure was also found to have a negative correlation with corporate governance disclosure (CGD). The association between CGD and total sales and total assets was not statistically significant, despite the positive correlation between them. Thus, it was determined that there was a positive correlation between the firm's size and the corporate governance transparency level. Financial success, or profitability, was also positively and strongly correlated with corporate governance disclosure (CGD). Regulators and policy makers in South Asia received empirical support for their decisions from Rouf's (2012) study.

In Ethiopian context, in the absence of an organized stock exchange, Ashenafi et al. (2013) investigated the effects of corporate governance measures on the performance of commercial banks. They evaluated the connection between a few chosen internal and external corporate governance practices and the ROE and ROA metrics used to gauge bank performance. They

gathered financial data from commercial banks spanning the years 2005 to 2011 through the use of structured document review. According to their findings, bank performance was statistically significantly impacted negatively by both board size and the presence of an audit committee, whereas bank performance was significantly impacted positively by bank size. Similarly, Bank financial performance was beneficially affected by the statistically significant outward corporate governance metric known as the capital adequacy ratio.

In a similar vein, Migbaru (2013) attempted to investigate how corporate governance affected the financial performance of selected Ethiopian banks. Return on equity, return on asset, and operational profit margin were the dependent variables he used to illustrate the financial performance of banks. The independent corporate factors considered for his analysis were board ownership, audit committee, CEO duality, board size, board independence, and frequency of board meetings. In addition, two factors firm size and leverage were taken into account as the control variables. Account as control variables. The results of his examination display that every other element had a substantial effect on return on asset, with the exception of board ownership. Significant relationships between operating earnings margin and board ownership, independence, size, and audit committee were discovered as well.

Pursuant Kibrysfaw's (2013) study findings, which examined the impact of various corporate governance tools, specifically, structure of ownership, board structure, and depositor influence on the financial performance of 9 Ethiopian commercial banks from 2005 to 2012 reveal that the proportion of nonexecutive directors on the board, the CAR and the reserve requirement from regulations proxies. Ethiopian commercial banks' performance is poorly and considerably affected by those. Conversely, the performance of banks was positively and significantly impacted by concentrated ownership, the deposit ratio, and the existence of an audit committee. His research also demonstrates the negligible effect of the other factors, such as board ownership, liquidity, and number on bank performance. The paper suggested regulation requiring banks to choose only non-executive directors has to be amended.

Additionally, Bayelign et al. (2022) studied corporate governance and financial performance in the emerging economy: The case of Ethiopian insurance companies. They measured the financial soundness of insurances embracing ROE and ROA. The independent corporate factors

considered for their analysis were Board size, Debt policy, Directors' remuneration, Dividend policy, Disclosure and Management soundness; they collected the financial information from nine insurance companies between 2012 and 2020, which has nine years of audited financial data. Their finding reveals that board size, management soundness, board remuneration and financial disclosure has a significant positive effect on Ethiopian insurance business performance and debt and dividend payout has a negative and significant effect on Ethiopian insurance companies' financial performance.

In order to explore how corporate governance impacting Ethiopian commercial banks' financial performance, Rao and Kidane (2016) also carried out research. Data came from the annual reports of a sample of commercial banks. They measured their financial performance by way of the use of Return on Asset (ROA) and Return on Equity (ROE). Using an unweighted checklist, content analysis was utilized to ascertain the degree of disclosure. To ascertain the relationship between corporate governance and financial performance, regression and correlation analysis were conducted. Their study's findings demonstrate that the ownership type, size, female representation, and practices involving transparency possess none effects on Ethiopian commercial banks' financial performance. Nonetheless, return on equity is significantly impacted by both asset size and capital structure.

In addition, the research conducted by Frehiwot (2016) attempted to examine a relationship a few corporate governance characteristics and return on asset, which is a measure of bank performance. The study took into account many corporate governance factors, such as the size of the board, gender diversity within the board, educational background of board members, expertise in a particular sector, size of the audit committee, and frequency of board meetings. The banks' age and size served as the control variable. Twenty the results of her study's regression analysis showed that while a board member's educational background, specific to an industry knowledge, and board design has a beneficial relationship with company performance, and board design has a beneficial relationship with company performance; however, financial performance had a negative impact by large boards and audit committees.

2.2.1. Board size and Financial Performance

The quantity of members on the board determines its size. There has been ongoing discussion over the ideal board size and how it impacts the organization's capacity for efficient operation (Riyadh, et al., 2019). In compliance with Ethiopia's corporate governance guidelines (SBB/71/2019), a bank's board of directors must include a minimum of nine members who collectively represent a range of genders and valuable abilities, including technological innovation, management of investments, banking, finance, accounting, legal, and corporate administration.

A big board size Mashayekhi and Bazaz (2008) assert that the board of directors plays a crucial role in an organization by offering strategic direction and policy direction. Large boards were favored because, according to Ciftci et al. (2019), they would offer better oversight and advice. In their 2019 study, Ciftci et al. probed how corporate governance embraces affected the financial performance of insurance businesses. They discovered that having a large board can enhance autonomy and diversity, which in turn improves firm performance. Furthermore, El-Chaarani, et al.'s study from 2022 on the effect of corporate governance on banking organizations' performance found that board size had a positive effect.

The bulk of research, however, provides evidence in favor of a lower board size has been supported by certain academics (Mori, 2014; Maharjan, 2019). In addition, Khan and Subhan (2019) urge the creation of small boards and suggest keeping the number of members on the board at seven or eight. Additionally, they imply that social laziness and free riding are problems that bigger groups face. Board size increases lead to an increase in free riding and a decrease in board efficiency. Either because of issues with coordination and control or because the decision-making process takes longer with larger boards of directors, performance may be on the decline (Pathan and Faff 2012; Bhattraï 2017; Lamichhane 2018). Chenini and Anis (2018) found that having a sizable board of directors has a negative impact on bank performance. A study by Cheng (2008) indicated that insurances with larger boards tend to have lower financial performance due to less effective decision-making processes. Another relevant study by Lipton and Lorsch (1992) discussed how smaller boards might be more effective, arguing that as board size increases, the board becomes less likely to function effectively, thus negatively impacting firm performance. The study found that the complexity and slower decision-making associated

with larger boards could negatively impact company performance. They contended that an excessively large board of directors lowered the efficiency of governance processes, which in turn caused banks and insurances to perform poorly. Therefore, the following hypothesis is formed:

Hypothesis 1: Big board size had a negative impact on insurances and banks financial performance.

2.2.2. Gender Diversity on the Board of Directors and financial performance

Gender diversity on the board of directors is calculated by dividing the total quantity of women on the board by the board size for a given time period. Mixed results have also been discovered in studies attempting to connect board diversity to company financial performance.

Some gender diversity studies, find no significant relationships (Rose, 2007; Mitiku, 2015; Arora & Sharma, 2016) or even a negative relationship (Wasim, et al., 2020) although the majority believe there is a beneficial correlation between female directors and company success (Carter, et al., 2003; Ferrer & Banderlipe, 2012; El-Chaarani, et al., 2022; Khatib, et al., 2022) It makes sense that having more women on bank boards would increase the diversity of backgrounds and experiences represented in decision-making (El-Chaarani, et al., 2022). Since many of them have had to use innovative coping mechanisms to advance professionally in settings that limited their opportunities, women with a variety of backgrounds and experiences may be able to draw on their varied experiences to suggest creative solutions (Khatib, et al., 2022). Diversity experts provide empirical evidence in favor of this idea, noting that having women in senior leadership roles enhanced decision-making (Carter et al., 2003; Ferrer & Banderlipe, 2012; Haileab, 2015; El-Chaarani, et al., 2022; Khatib, et al., 2022). McKinsey & Company (2020 report "Diversity Wins: How Inclusion Matters" found that companies in the top quartile for gender diversity on executive teams were 25% more likely to have above-average profitability compared to companies in the bottom quartile. This study highlights the financial benefits of gender diversity across various industries; including insurance. In developed nations women's representation on bank boards of directors has a favorable effect on the ROA and ROE (García-Meca et al. 2015; Mertzanis et al. 2019). Gender diversity in the insurance industry can lead to enhanced decision-

making, better risk management, improved financial performance, and stronger corporate governance. By actively promoting and supporting gender diversity, insurance companies can gain a competitive edge and better serve their diverse customer base. Thus, the following is the second hypothesis:

***Hypothesis 2:** The presence of women on the board of directors of insurance and banks has a positive effect on bank and insurances financial performance.*

2.2.3. Board Members Educational Qualification

Many empirical researches have examined the significance of board competency and how it affects the performance of the organization to date. According to a 2010 study by Hau and Thum, there was generally no discernible relationship between board member education and bank losses. Using a sample of German banks, Berger et al. (2014) found that the presence of PhD-holding CEOs was associated with a decrease in portfolio risk. Furthermore, Nguyen et al. (2015) asserted that executive education created shareholder wealth in the US banking industry. Pereira and Filipe (2015) also found that a bank's ROAE is significantly affected by the education of its bank board members. Furthermore, King et al. (2016) underlined that CEO education has an impact on bank performance, both in terms of level and quality. Fernandes et al. (2017) found no evidence of a statistically significant relationship between education and the financial performance of the banks in another investigation. Finally, Gande and Kalpathy (2017) found that banks' "buy and hold" returns improved when their CEOs had MBAs from top 20 universities. According to Francis et al. (2015) and Ellul and Yerramilli (2013) The governance and performance of firms can be greatly impacted by the educational backgrounds of their board members. Firm including insurance companies can reap several advantages from having board members with relevant and diverse educational credentials, such as better strategic planning, better risk management, and more effective decision-making.

Thus, in light of the aforementioned, it is thought that board member education is crucial to ensuring that members can effectively manage the board. Thus, the third hypothesis which suggests that bank board members utilize their resources such as education to make the best

judgements in order to improve bank financial performance applies to this situation in light of the resource dependency theory. Accordingly, hypothesis (H3) is formulated as follows:

→ *Hypothesis 3: Board Members Educational Qualification has a positive effect on a bank financial performance.*

2.2.4. Audit Committee Size and financial performance

Companies use auditing to save agency expenses, and one important part of the monitoring process is the audit committee that the directors carry out. Furthermore, they disclosed that the majority of Fundamental board actions are made at the committee level, encompassing the auditing committee. Therefore, audit committees provide an additional internal oversight instrument that enhances a company's performance through better financial management (Jensen and Meckling, 1976). The relationship between audit committee size and financial performance in banks and insurance companies can be complex and context-dependent. However, several studies suggest that there might be a negative relationship between larger audit committees and financial performance.

In order to safeguard the interests of shareholders, board committees are a crucial component of the board structure that provide impartial, expert monitoring of business operations (Khatib, et al., 2022). They are determined by adding up all of the internal subcommittee members that at the completion of the period, the private commercial bank has on its board. A bank and insurance must have a minimum of three committees: the main board management subcommittee, the compensation subcommittee, and the audits and risk subcommittee, according to worldwide corporate governance norms and central/national bank and insurance regulations. This is the total number of internal board committees that must be present at all times. At the completion of the period, the private commercial bank has on its board. A bank must have a minimum of three committees: the main board management subcommittee, the compensation subcommittee, and the audits and risk subcommittee, according to worldwide corporate governance norms and central/national bank regulations. This is the total number of internal board committees that must be present at all times. The Ethiopian principles on bank corporate governance enable the establishment of three committees, including but not restricted to the audit subcommittee,

According to the NBE codes of regulations, there must be a minimum of those many internal board committees.

Board subcommittees, according to Romano (2012), are essential for keeping an eye on business operations and safeguarding shareholder value. Bussoli (2013) asserts that a sufficient number of board committees are important to the financial success of a bank; hence board subcommittees serve as a gauge for how well private commercial banks are operating. Maharjan (2019) found favorable connection for independent committees, board makeup, and leadership. To monitor the execution functions of audit, remuneration, and nomination, the agency theory principle of separating the oversight and execution function is established (Riyadh, et al., 2019). When companies failed in the past, the blame was usually directed at the governance structures' incapacity to allow the boards of those companies to make necessary corrections (Arora & Sharma, 2016) Research focusing on banks suggests that smaller audit committees might be more effective in ensuring strong financial performance. Larger groups often suffer from communication breakdowns. Important information might not be effectively shared among all members, which can lead to misunderstandings or overlooked details that are crucial for maintaining robust financial performance. A study by Adams and Mehran (2005) found that smaller, more focused boards and committees tend to be associated with better bank performance due to more cohesive decision-making processes. Similarly, a study by Beasley et al. (2009) on insurance companies indicated that larger audit committees do not necessarily lead to better oversight or financial outcomes. The study suggested that beyond a certain point, increasing the size of the audit committee could lead to inefficiencies and reduced performance. Accordingly, the fourth hypothesis (H4) is formulated the following way:

➔ *Hypothesis 4: Audit Committee Size has a negative effect on insurances and banks financial performance.*

2.2.5. Institutional Ownership

Institutional ownership could be probed in light of the owner's identity. Because they have a greater motivation to keep an eye on management conduct and company performance due to their larger shareholdings, large shareholders and institutional investors may be seen as possible

controllers of equity agency concerns. This possibility aids in avoiding the ownership dispersion free rider issue (Ferrer & Banderlipe, 2012). Research by Wasim et al. (2020) found that performance is positively impacted when the board has a substantial amount of ownership.

Managers who possess shares see themselves as the company's custodians. According to stewardship theory, managers strive for greater performance because they have an obligation to protect the interests of shareholders and ensure the firm's long-term success (Arora & Sharma, 2016). Arora and Sharma (2016), Ciftci et al. (2019), and Ferrer and Banderlipe (2012) all investigated the relationship between management ownership and bank profitability. They noticed that a higher level of insider ownership resulted in a more favorable alignment of CEO interests with insurance and bank performance. A management team that is thus dedicated to preserving the bank's and insurances success will hold managers concentrated on their tasks throughout economic downturns. Study by Elyasiani and Jia (2010) the study highlighted that institutional ownership is associated with better risk management practices and lower risk-taking behaviors in financial institutions, including insurance companies. Study by Hartzell and Starks (2003) indicated that institutional investors have a significant impact on corporate governance practices, leading to better oversight and alignment of management interests with those of shareholders. Institutional ownership can have a profound impact on the governance, risk management, and financial performance of insurance companies. By fostering strong relationships with institutional investors and aligning corporate practices with their expectations, insurance companies can benefit from enhanced oversight, improved market perceptions, and better long-term performance. Based on the above, the following hypothesis is suggested:

➔ *Hypothesis 5: Institutional ownership has a positive effect on bank and insurance financial performance.*

2.2.6. Board Meeting Frequency

Board meetings are necessary in order for the board to oversee management performance and carry out its duties in an efficient manner. The number of times a year that the board meets is referred to as its meeting frequency. There are two theoretical schools of thought on this matter: the ones who support more frequent board meetings and the ones who do not (Arora & Sharma, 2016). Many banks and insurance companies hold board meetings on a quarterly basis, aligning

with the quarterly reporting cycle for financial results. However, some institutions may hold meetings more frequently, such as monthly or bi-monthly, especially during periods of significant change or crisis.

A higher standard of managerial coaching will follow from more often board meetings. It will be assumed that the number of board meetings and earnings are positively correlated. Directors can discuss strategies, create goals, and evaluate management performance more thoroughly at regular meetings (Ferrer & Banderlipe, 2012). Keeping directors updated about significant changes inside the company might be beneficial. The directors will be in a better position to promptly handle pressing issues as a result. Indeed, it was proposed that regular meetings combined with unofficial side conversations might build and reinforce strong ties between directors (Arora & Sharma, 2016).

A counterargument to this theory is that stockholders may not always benefit from board meetings. Accordingly, Monda & Giorgino (2013) contend that directors typically do not meaningfully communicate ideas with one another during their brief meeting time. Instead, a large portion of the meetings are devoted to standard chores like presenting management reports and other formalities. As a result, outside directors would need less time to oversee management in an efficient manner (Monda & Giorgino, 2013). According to Mahajan (2019), board meetings incur significant costs in terms of administrative time, travel expenses, refreshments, and directors' meeting costs.

Mixed results are found in empirical research on the relationship between company performance and frequent board meetings. According to certain research, the performance of banks is negatively impacted by holding meetings more frequently. Board meetings were shown to be negatively and significantly correlated with the financial performance of the firm by Maharjan (2019). Additionally, a growing meeting frequency will lower ROA, and a larger meeting count has a markedly negative impact on ROA (Monda & Giorgino, 2013). A statistically significant and inverse relationship between the frequency of board meetings and company profitability was observed by Maharjan (2019).

However, Karamano (2005) used a sample of 157 Zimbabwean companies from 2001 to 2003 and discovered a significant correlation between the frequency of board meetings and

management profits projections; also, the study reported a positive relationship between board meeting frequency and corporate performance. Similarly, a statistically significant and positive correlation was shown between the frequency of board meetings and company profitability in research conducted in South Africa between 2002 and 2007, involving 169 listed firms (Ntiman, 2011). This suggests that South African boards of directors that convene more regularly likely to provide greater financial performance. Belete (2015) also discovered a significant correlation between the frequency of board meetings and the financial performance of microfinance institutions. According to Fernandes et al. (2017), the agency framework's measurement of board activity intensity, which is based on meeting frequency, may suggest that corporate boards actively monitor company performance. The frequency of board meetings can have a significant impact on the financial performance of insurance companies. The study by Brick and Chidambaran (2010) examined the relationship between board structure, including meeting frequency, and financial performance. It found that a higher frequency of board meetings was positively correlated with better financial performance, particularly in complex and highly regulated industries like insurance. Additionally the study by Conger, Finegold, and Lawler (1998) indicated that more active boards, as evidenced by frequent meetings, tend to be associated with better firm performance. The study emphasized the importance of active engagement and oversight by the board. While more frequent meetings can lead to improved oversight, risk management, and strategic alignment, it is essential to ensure that these meetings are effective and focused on critical issues. By finding the right balance and fostering active engagement, insurance companies can leverage board meetings to enhance their overall governance and financial performance. Based on the above, hypothesis six is formulated as follow:

➔ *Hypothesis 6: Board meeting frequency has a positive effect on bank and insurance financial performance.*

2.3.Literature Gap

The empirical literatures that were previously explained make clear that there is conflicting and inconclusive information about the relationship between corporate governance and financial

Performance Therefore, it becomes essential to take into account that studies on corporate governance and its influence on financial performance possess insufficient or no systematic proof with findings that are widely acknowledged. Diverse findings emerge from studies conducted by Yenesew (2012), Migibaru (2013), Kibrysfaw (2013), and Frehiwot (2016) to investigate the effects of corporate governance practices on the financial performance of commercial private banks in Ethiopia. Even though their studies' topics and goals were identical, most of the corporate governance variables they employed differed. As a result, it provides a level playing field for academics, bankers, insurers, regulators, supervisors, and researchers to determine the empirical effects of corporate governance on financial performance. Furthermore, An examination of the related research revealed that, while some studies have looked empirically at how corporate governance affects the financial performance of Ethiopian commercial banks, the majority of these studies have been published more than five years ago, necessitating further research using more recent data. The study therefore aims to determine the effect of corporate governance on financial performance of Ethiopian commercial banks and insurances.

2.4. Conceptual Framework of the Study

As stated by Kombo and Tromp (2009), a conceptual framework is a collection of overarching concepts and ideas drawn from pertinent disciplines of study that are used to organize a presentation that follows. The general idea from the past literature is that there is a relationship between corporate governance and financial performance. Based on the theoretical and empirical literature concerning the relationship between corporate governance and financial performance, the present study develops the following conceptual framework.

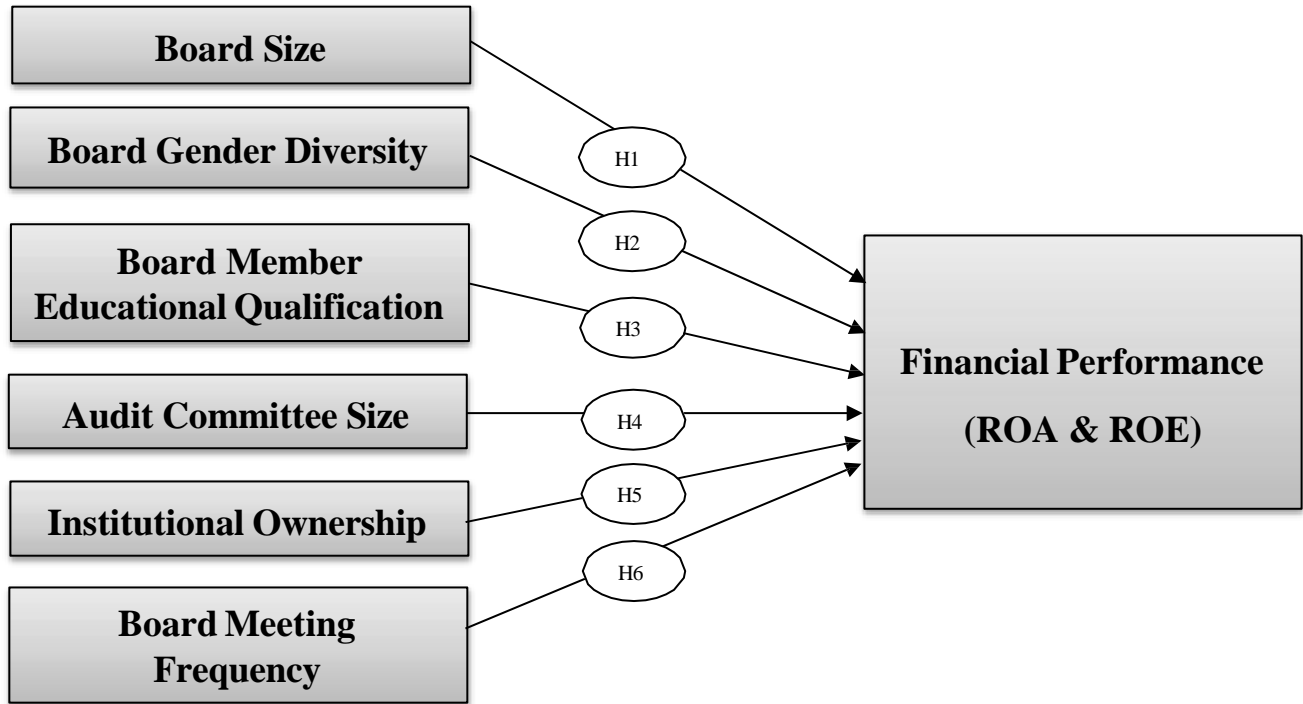


Figure 2.5: Conceptual Framework

Source: (Firehiwot, 2016; Vicente, et al., 2020; El-Chaarani, et al., 2022)

In this framework, corporate governance practice is independent variable and financial performance which is measured using (ROA & ROE) is dependent variable. In this study, corporate governance practice is perceived as a multidimensional construct composed of six components, namely: institutional ownership, board size, board member audit committee size, educational qualification, board gender diversity and board meeting frequency.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter deals with the research design and methodology. This includes the research design, sample and sampling methodology, data collection sources and techniques, data analysis techniques, variable description, and the description of the model.

2.5. Research Design

A research design is a set of procedures that a researcher uses to provide a trustworthy, objectively, truthful and cost-effective response to a topic (Ranjit Kumar,2005). A research design helps a researcher to conceptualize an operational plan to undertake the various procedures and tasks required to complete the study and to ensure that these procedures are adequate to obtain valid, objective and accurate answers to the research questions. The methodology of the study is determined by the paper's aims and the accessibility of pertinent data. In order to align with the research goal, this study's principal objective is to evaluate the impact of corporate governance on financial performance in Ethiopian private insurances and banks. To achieve this objective the study used explanatory method of research design.

3.2. Research Approach

In the field of business and financial studies, research projects are typically conducted using one of three popular methodologies: mixed, qualitative, or quantitative. In order to fulfil the study's objective. The research used a quantitative research approach. Quantitative research is research that addresses research objectives through empirical assessment. It involves numerical measurement and analysis approaches. It generates statistics through the use of large-scale survey research, using methods such as questionnaires or structures interviews. (Zikumnd, 2010).

3.3. Sample and Sampling Technique

The population of the research is private commercial banks and insurances operating in Ethiopia. Purposive sampling was used to select a sample private commercial banks and insurances. Purposive sampling refers to a collection of non-probability sampling methods where units are

chosen based on the characteristics you require in your sample. Put differently, purposive sampling involves the "on purpose" selection of units (Nikolopoulou, 2023). Commercial banks and insurances with complete financial statements for the research period were purposively included in the sample.

3.4. Source of Data and Collection Methods

The study used primary and secondary data sources in its data collection. The insurances and banks audited financial statements serve as the secondary source of data over the period of five years (2019-2023). These data were obtained from NBE (National Bank of Ethiopia). The primary data was obtained via the use of questionnaire to the board secretaries of banks' and insurances since they are in better position to have all the detail information regarding corporate governance of their financial institution.

3.5. Description of Variables and Measurement

The variables relevant to corporate governance and financial performance were chosen through a combination of various theories and prior empirical research. The independent and dependent variables of the study have been determined in accordance with theory and empirical research in order to examine the impact of corporate governance on financial performance in Ethiopian private banks and insurance.

3.5.1. Dependent Variables

The study's dependent variables are those that are used to measure Ethiopian private banks' and insurance companies' financial performance. Two of the most crucial and common metrics for assessing how well a company's management team is handling the capital entrusted to it are return on equity and return on assets (Ryan. furhmann. 2022). To measure the financial performance ROA & ROE were used.

Return on Asset (ROA) - is a measure of a business's profitability in relation to its total assets. It evaluates the management team's general effectiveness. It provides insight into how well management uses its resources to turn a profit.

$$\text{ROA} = \frac{\text{Net income}}{\text{Total Asset}}$$

Return on Equity (ROE) - It evaluates a company's financial success by indicating the amount of profit it makes on the capital that shareholders have invested. It displays how skillfully the money of the shareholders is managed and put to work producing returns.

$$\text{ROE} = \frac{\text{Net income}}{\text{Total Equity}}$$

3.5.2. Independent Variables

The study's independent variables are those that are employed to determine the corporate governance of banks and insurance companies. Those are board size, Board gender diversity, board meeting frequency, educational qualification of board Audit committee size, and Institutional ownership. The definition and measurements of the variables are as follows:

- **Board size:** - signifies the total number of board members. A negative relationship advocates that an increase in the number of board members leads to decrease in the value of shareholders and stakeholders. The rationale is that when a board is too big, poor communication and decision-making outweigh any benefits of having a larger board. Prior research shown that board size has a negative impact on company performance. Mahboubeh (2013), Fanta, Sirmolo and Kassa (2013) Mahan and Marimuthu (2015) large boards also incur substantial costs for coordination and processing issues, which complicates decision-making. But smaller boards tend to improve firm performance since they reduce the chance of free riding.
- **The educational qualifications of the board members:** - This is measured by the percentage of board members with an MA degree or above to the total number of board members. Board may preferably comprise of directors who as a group provide a mixture of core competencies. The educational backgrounds of each board member are a

significant factor in board decision-making processes. The supervisory and monitoring function of boards of directors is impacted by educational background (Gantenbein and Volonte, 2011). Given that the corporate governance structure is one of the tools for supervising the company and can potentially provide the expertise required to operate in the new environment, the human capital lent by its board of directors is crucial. The efficiency of the board is influenced by personal profile elements of the directors, such as their education and experience.

- **Board gender diversity:** - denotes the proportion of female board members to the board size. Diversity on the board of directors is seen to enhance business success because it brings fresh viewpoints and insights (Erhardt et al; Bathula, 2008., 2003). The boardroom will benefit from the varied viewpoints of female board members, something that is not possible with just male directors.
- **Audit committee size:** - is total number of members serving on the auditing committee. Subcommittees of the company's board comprise the audit committee. With the goal of boosting the accuracy and reliability of the financial data the firm produces and raising public trust in the financial statements, it is a crucial corporate governance tool. Thus, audit committees are an additional internal governance instrument that raises a company's value by enhancing the standard of its financial management. Smaller audit committees with greater expertise and stronger educational backgrounds are more likely to be linked to successful firm performance, according to Aldamen et al. (2011). Furthermore, a small audit committee guarantees efficient oversight (Kyereboah-Coleman, 2007).
- **Institutional ownership:** - is Percentage of total shares held by institutional investors one of the indicators in implementing good corporate governance is Institutional Ownership. Some previous research results still show inconsistent research results such as Sujoko & Soebiantoro (2007), Bjuggren et al., (2007) found that institutional ownership has positive influence on company performance.
- **Board meeting frequency:-** is refers to the number of board meetings held per year. The performance of insurance and banks is positively impacted by holding meetings more frequently.

Table 3.1: Summary for description of variables and measurements

Variables	Description	Measurement	Expected sign
ROA	Return on asset.	proportion of total asset value representing profit after taxes	
ROE	Return on equity.	proportion of profit after tax as a percentage of total equity	
BSZ	Board size	the total number of board members	-
BGD	Board gender diversity	the proportion of female board members to the board size	+
IOWN	Institutional ownership	Percentage of total shares held by institutional investors	+
AUDS	Audit committee size	total number of members serving on the audit committee	-
BEQUAL	Board educational Qualification	the percentage of board members with an MA degree or above relative to all board members	+
BMF	Board meeting frequency	The board meeting frequency on a year	+

3.6. Data Analysis

The number of explanatory variables taken into account in this study exceeds two. Therefore, it has been determined that multiple regression statistical tools are appropriate for analyzing the survey data because they can show the relationship between the variable that is dependent and the effect of each independent variable as well as the multiple regression between the dependent and the combined impact of independent variables.

Descriptive statistics and regression analysis were used to analyze the data that was gathered using the mentioned tools. Using the mean, maximum, minimum, and standard deviations of the variables, the descriptive statistics were analyzed to quantitatively describe the significant aspects of the variables. Besides, the causal relationship between the independent and dependent

variables was ascertained by regression analysis. For data analysis, the Statistical Package for Social Sciences (SPSS) and STATA program were used.

3.7. Model of Specification

Regression analysis model was used to project the extent to which the (corporate governance) six independent variables; board size, Audit committee size, Board gender diversity, board educational qualification, board meeting frequency and Institutional ownership explain how the financial performance is likely to be influenced.

There are explanatory variables, and the relationship between the dependent variable and the explanatory variables is representing by the following equation:

$$Y_{it} = \beta_0 + \sum \beta_k X_{it} + \varepsilon_{it}$$

Where;

- Y_{it} represents the dependent variable ROA and ROE of banks and insurances *i* for a time period *t*.
- β_0 is intercept
- β_k is the coefficient of X_{it} variables
- X_{it} represents the explanatory variables (BSZ, BGD, IOWN, AUDES, BEQUAL and BMF) of bank and insurance *i* for time period *t*.
- ε_{it} is the error term

The following study variables are substituted for the previously mentioned general empirical research model to determine how corporate governance methods affect a firm's financial performance:

$$ROA_{it} = \beta_0 + \beta_1(BSZ_{it}) + \beta_2(BGD_{it}) + \beta_3(IOWN_{it}) + \beta_4(AUDES_{it}) + \beta_5(BEQUAL_{it}) + \beta_6(BMF_{it}) + \varepsilon_{it}$$

$$ROE_{it} = \beta_0 + \beta_1(BSZ_{it}) + \beta_2(BGD_{it}) + \beta_3(IOWN_{it}) + \beta_4(AUDES_{it}) + \beta_5(BEQUAL_{it}) + \beta_6(BMF_{it}) + \varepsilon_{it}$$

- **Dependent variables**

ROA= return on asset of banks and insurances

ROE=return on equity of banks and insurances

- **Independent variable**

BSZ= Board size of bank and insurances

BGD= Board gender diversity of bank and insurance

IOWN= Institutional ownership of bank and insurance

AUDS= Audit committee size of bank and insurance

BEQUAL= Board members educational qualification of bank and insurance

BMF= Board meeting frequency of bank and insurance

CHAPTER FOUR

RESULTS AND DISCUSSION

The analysis and presentation of the results from the descriptive and regression analysis on the impact of corporate governance on the financial performance of private Ethiopian banks and insurance companies are covered in this chapter. To help with greater insight of the data, the research's descriptive statistics are first discussed. Next, a presentation and description of the statistical test results are presented. In the final section result from inferential statistics are presented with the discussion of previous empirical studies.

4.1. Descriptive Statistics

The summary statistics for each study variable were covered in this section. The variables are the dependent and independent variables. With a total of 145 observations over the course of five years, from 2019 to 2023, Table 4.1 summarizes the descriptive statistics of the dependent and independent variables for twenty nine commercial banks and insurance businesses in Ethiopia (among them sixteenth were Ethiopian private banks and Thirteen private insurances). The dependent variable (Return on Asset and Return on Equity) and the independent variables (board size, board gender diversity, audit committee, board member educational qualification, size institutional ownership, and frequency of board meetings) are presented in the table along with the mean, maximum, minimum, standard deviation, and number of observations.

Table 4.1: Summary of Descriptive Statistics

variables	N	Minimum	Maximum	Mean	Std. Deviation
Return on Asset	145	.003	.099	.03791	.023964
Return on Equity	145	.021	.279	.16624	.048689
Board size	145	8.000	12.000	9.62069	1.130812
Board gender diversity	145	.000	.364	.18963	.113916
Institutional ownership	145	.015	.220	.10886	.057687
Audit committee size	145	3.000	4.000	3.05517	.229108
Board Educational Qualification	145	.043	.765	.60958	.123232
Board meeting frequency	145	10.000	18.000	12.99310	1.578926

Source: (Research findings, 2024)

The average indicators of the variables calculated from the financial statements are displayed in Table 4.1 along with the standard deviation, which indicates the degree of variation from the average value. A low standard deviation, according to Brooks (2008), suggests that the data points are often relatively close to the mean, whereas a high standard deviation suggests that the data points are dispersed throughout a wide range of values. It displays the summary information for each of the analysis's variables. The data, which are average values over a range of years, are presented to illustrate the trajectory of the major variables from 2019 to 2023. The description of the descriptive statistic value of each variable is presented below.

4.1.1. Dependent Variable (ROA and ROE)

In this study bank performance is dependent variable. And it is measured by return on asset and return on equity. The descriptive statistics of Return on Assets (ROA) and Return on Equity (ROE) for 29 commercial banks and insurance companies in Ethiopia over five years (2019-2023) provide valuable insights into their financial performance.

ROA: the data shows that the average 0.3791 ROA of suggests that, on average, the banks and insurances able to generate a 3.79% return on asset on average. The range from 0.003 to 0.099 indicates variability in the efficiency of asset utilization among these firms. With a standard deviation of 0.024, there is moderate variability around the mean ROA, indicating differences in asset management efficiency among the sampled firms.

ROE: the average ROE of 0.1662 indicates that, on average, the banks and insurances able to generate 16.2 % return on equity on average. The range from 2.1% to 27.9% suggests variability in the profitability and efficiency of equity utilization among these firms. With a standard deviation of 0.0487, there is moderate variability around the mean ROE, indicating differences in the profitability and efficiency of equity utilization among the sampled firms

4.1.2. Independent Variable

Board Size

The sample's average board size for commercial banks and insurance companies is approximately about 9.62 board members suggest that, on average, these firms have relatively

small boards overseeing their operations. The range from 8 to 12 members indicates variability in board sizes among the sampled firms. With a standard deviation of 1.13, there is moderate variability from the mean of board size, indicating differences in governance structures among these firms.

Board Gender Diversity

The average board gender diversity of 0.19 suggests that, on average, around 19% of board members are female. The range from 0 to 36.4% indicates variability in gender diversity among the sampled firms. With a standard deviation of 0.11, there is moderate variability around the mean of gender diversity, suggesting differences in gender representation across boards.

Institutional ownership

The average institutional ownership of 0.11 indicates that institutional investors hold approximately 11% of shares in these firms. The range from 1.5% to 22% suggests variability in institutional ownership among the sampled firms. With a standard deviation of 0.058, there is moderate variability around the mean of institutional ownership, indicating differences in ownership structures.

Audit Committee Size

The average audit committee size of approximately 3.16 members suggests that audit committees are relatively small within these firms. The range from 3 to 4 members indicates limited variability in audit committee sizes among the sampled firms. With a standard deviation of 0.23, there is limited variability around the mean of audit committee size, suggesting consistency in audit committee structures.

Board Educational Qualification

The average board educational qualification of 0.61 suggests that, on average, approximately 61% of board members have college degrees or higher education qualifications. The range from 43% to 76.5% indicates variability in educational qualifications among the sampled boards. With

a standard deviation of 0.12, there is moderate variability around the mean of educational qualification, indicating differences in the educational background of board members.

Board Meeting Frequency

The average board meeting frequency of approximately 13 meetings per year suggests active engagement and oversight by the boards. The range from 10 to 18 meetings indicates variability in meeting frequency among the sampled boards. With a standard deviation of 1.58, there is moderate variability around the mean meeting frequency, suggesting differences in board engagement levels.

Overall, the descriptive statistics provide insights into the governance structures of banks and insurance companies in Ethiopia. The relatively small board sizes and active board meeting frequencies suggest efficient governance practices, while the moderate gender diversity and educational qualifications imply steps towards inclusivity and expertise within boards.

4.2. Regression result and Discussion

The study's regression analysis of the effect of corporate governance practices on Ethiopian private banks and insurances performance as determined by ROA and ROE is presented. Regression results on the influence of corporate governance measures on sample insurances and banks performance are presented after model diagnosis and robustness checks are performed to improve the quality of the econometric estimations. The regression analysis helps the researcher to accomplish the study goal and evaluate the suggested hypothesis empirically.

4.2.1. Testing Assumptions Classical Linear Regression Model (CLRM)

Ordinary Least Square (OLS) assumptions provide the foundation of multiple linear regressions. The assumptions of the classical linear regression model (CLRM) form the foundation of ordinary least squares (OLS). Making sure the data being analyzed can actually be analyzed using multiple regressions is one step in the process when someone chooses to use multiple regressions to analyses data. This could be done for the reason that multiple regressions should only be used when the data "passes" the assumptions needed for the regressions to produce a meaningful result. In this study, several CLRM assumptions are examined and required to be

fulfilled. Which are: errors equal zero mean test, homoscedasticity, normality, autocorrelation, and multicollinearity. .

4.2.1.1. Test for heteroscedasticity assumption ($\text{var}(u_t) = \sigma^2 < \infty$)

Heteroscedasticity in a study usually happens when the variance of the errors varies across observation (Long & Ervin, 2000). On the other hand, Homoscedasticity in a study usually happens when the variance of residuals (error term) would be same for all predicated (Tabachnic & Fidell, 2007). There are various approaches to determining whether the error term variances are consistent from observation to observation. The most popular technique is the Breusch-Pagan test, which was designed to evaluate the alternative that the error variances are a multiplicative function of one or more variables against the null hypothesis that the error variances are all equal. Breusch-Pagan examines the absence of heteroscedasticity as the null hypothesis. Reject the null hypothesis if the sig-value is less than 0.05. The chi-square value of 0.01 and the sig-value for the fitted values of 0.9104 the dependent variable (ROA) in this study show that heteroscedasticity was not a problem. Likewise, the chi-square value of 0.06 and the sig-value of 0.8096 for the fitted values of the dependent variable (ROE) show that heteroscedasticity was not a problem. The results of the Breusch-Pagan test for heteroscedasticity in STATA are shown in Table 4.2

Table 4.2: Breusch-Pagan test for Heteroscedasticity

<p>ROA Breusch-Pagan for Heteroscedasticity Breusch-Pagan / Cook-Weisberg test for heteroskedasticity Ho: Constant variance Variables: fitted values of ROA chi2(1) = 0.01 Prob > chi2 = 0.9104</p>
<p>ROE Breusch-Pagan for Heteroscedasticity Breusch-Pagan / Cook-Weisberg test for heteroskedasticity Ho: Constant variance Variables: fitted values of ROE chi2(1) = 0.06 Prob > chi2 = 0.8096</p>

Source: (Research findings, 2024)

4.2.1.2. Test for multicollinearity

When two or more independent variables have a high degree of correlation with one another, multicollinearity arises. This causes technical problems when generating a multiple regression model and makes it difficult to determine which independent variable contributes to the variation explained in the dependent variable (Simon, 2004). A technique for determining if research variables are multicollinearity is to utilize the Variance Inflation Factor (VIF). When the numerical results of the Variance Inflation Factor were examined for signs of multicollinearity, they were all much below the 10 cut-off number recommended by Neter, Kutner, Wasserman, and Nachtsheim (1996). Using this as a guideline, as indicated in Table 4.3, there is no collinearity among the independent variables according to this general criterion.

Table 4.3 Multicollinearity test

Independent variables	Collinearity Statistics	
	Tolerance	VIF
Board size	.523	1.912
Board gender diversity	.591	1.692
Institutional ownership	.443	2.260
Audit committee size	.492	2.033
Board educational Qualification	.526	1.903
Board meeting frequency	.552	1.810

Source: (Research findings, 2024)

4.2.1.3. Test for absence of Autocorrelation

Regression models also assume that there should be zero correlation between error terms. This implies that the error term must be random and devoid of any pattern. When there is a correlation between the error terms across observations, there is autocorrelation. Autocorrelation is the term for phenomena when there is covariance between the residuals and it is not zero (Brooks, 2008). We can employ a variety of techniques to verify this.

Durbin–Watson test

The Durbin-Watson test is widely employed to ascertain the presence of autocorrelation, defined as a linear connection between the error terms for a single observation. As per Cochrane (1997), the absence of autocorrelation is shown if the value of d falls between 1.5 and 2.5. The Durbin-Watson test of statistics value for ROA and ROE was 1.597 and 1.762, respectively. Therefore, the result is within recommended range demonstrated that there isn't any auto connection, as table 4.4 below illustrates.

Table 4.4: Durbin-Watson Test for Autocorrelation

Test Method	Dependent variable	Value
Durbin-Watson	Return on Asset (ROA)	1.597
Durbin-Watson	Return on Equity (ROE)	1.762

Source: (Research findings, 2024)

4.2.1.4. Test for Normality ($ut \sim N(0, \sigma^2)$)

The assumption of normality, which holds that residuals, or errors, are roughly regularly distributed, is the other pillar of multiple regression analysis. Regression analysis requires that the residuals follow a normal distribution in order to yield reliable conclusions. Plotting normal Q.Q(quantile-quantile) or P-P(probability-probability) for the dependent variable is a straightforward method to verify this assumption and validate the result (Asghar & Saleh, 2012).

This is a graphical process where the predicted probability given the normal curve is plotted on the Y-axis and the cumulative probabilities (values range from 0 to 1) on the X-axis. The points would be located on a straight diagonal line if the sample had a perfect normal distribution. The normal distribution of the data is confirmed by the picture below, which displays normal P-P plots for the dependent variables (ROA and ROE), where the points would lie on a straight line.

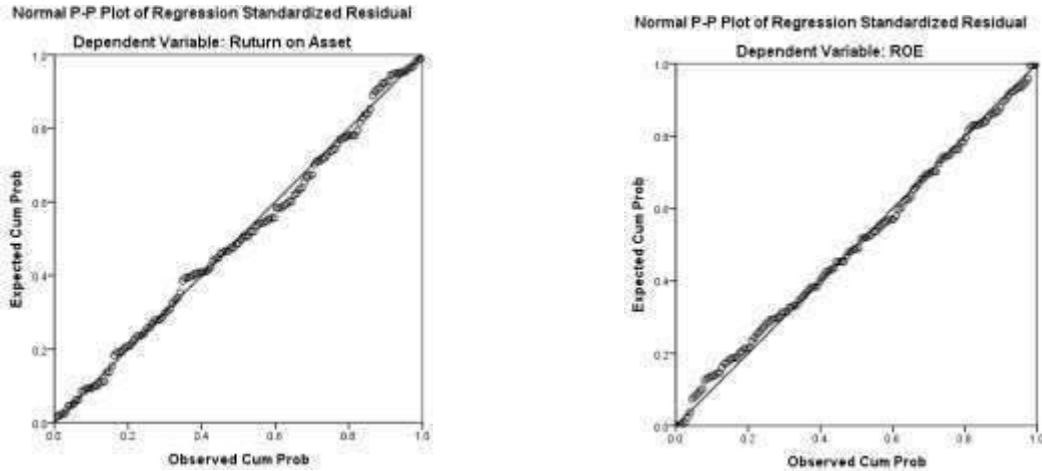


Figure 4.1: Normal P-P Plot of residual for dependent variables

4.2.1.5. Choosing among Fixed Effect & Random Effect Model

Thus far, the findings show that there is no violation of any of the CLRM assumptions, allowing for the safe application of the ordinary least square regression. Random Effects Models (REM) and Fixed Effects Models (FEM) are the two primary panel estimator methodologies that can be used, though, since this study employs panel data (Brooks, 2008).

Thus far, the findings show that there is no violation of any of the CLRM assumptions, allowing for the safe application of the ordinary least square regression. Random Effects Models (REM) and In the most basic fixed effects models, all of the slope estimates are fixed both cross-sectional and over time, while the intercept in the regression model is allowed to vary cross-sectional but not over time. With the assumption that the associations between the explanatory and explained variables are the same both cross-sectionals and temporally, the random effects approach suggests distinct intercept terms for each entity, and once more, these intercepts are consistent over time (Brooks, 2008). In order to get the best estimate for the data, it is crucial to choose one of the two models.

To choose between the two panel estimator approaches, various test techniques are applied. Gujarati (2004) explains that the researcher used the Hausman test to provide a formal response for technique selection. For this test, the random effect model served as the null hypothesis and the fixed effect model as the alternate hypothesis. Apply the fixed effect model and reject the

null hypothesis based on test results if the prob-value is statistically significant at the 5% level. If not, apply the random effect estimator. The P-Value calculates how strong the evidence is in opposition to the null hypothesis.

Hausman test for ROA

Test: Ho: difference in coefficients not systematic

$$\begin{aligned} \text{chi2(6)} &= (b-B)' [(V_b - V_B)^{-1}] (b-B) \\ &= 0.32 \\ \text{Prob>chi2} &= 0.9994 \end{aligned}$$

Hausman test for ROE

Test: Ho: difference in coefficients not systematic

$$\begin{aligned} \text{chi2(6)} &= (b-B)' [(V_b - V_B)^{-1}] (b-B) \\ &= 3.51 \\ \text{Prob>chi2} &= 0.7420 \end{aligned}$$

The model for ROA's Hausman specification test p-value is 0.9994, as can be seen above. At the 5% significance level, this value is not statistically significant. Consequently, it was not possible to reject the model's null hypothesis. This suggests that when Return on Asset (ROA) is the dependent variable, the random effect model has a better fit than the fixed effect model.

Likewise, at the 5% significance level, the model's ROE p-value (0.7420) for the Hausman specification test is not statistically significant. Consequently, it was not possible to reject the model's null hypothesis. This suggests that when we choose Return on Equity (ROE) as the dependent variable, the random effect model is a better fit than the fixed effect model.

Overall, the Hausman test results strongly indicate that the random effects model is appropriate in both ROA and ROE cases. Since the null hypothesis is not rejected, it suggests that the

random effects model is consistent and efficient, and therefore should be preferred over the fixed effects model.

4.2.2. Regression results for (ROE and ROA)

In order to ascertain the impact of corporate governance on the financial performance of Ethiopian banks and insurance companies, the results of a regression analysis including two dependent and six independent variables are presented in this section.

4.2.2.1. Random Effect Regression analysis of ROA and ROE

The random effect regression model is used since the findings of the Hausman specification test for ROA and ROE point to its use. Using the regression output that was supplied, the random-effects GLS regression model for ROA and ROE is written as follows:

Table 4.5 Random effect model regression result of ROA

. xtreg ROA BSZ BGD IOWN AUDES BEQUL BMF, re

```

Random-effects GLS regression           Number of obs   =       145
Group variable: Year                   Number of groups =         5

R-sq:  within = 0.6948                 Obs per group:  min =        29
        between = 0.8385                avg =       29.0
        overall = 0.6965                max =        29

Wald chi2(6) =       316.65
corr(u_i, X) = 0 (assumed)             Prob > chi2     =       0.0000
  
```

ROA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
BSZ	-.0031376	.0013743	-2.28	0.022	-.0058311	-.0004441
BGD	.0486962	.0128332	3.79	0.000	.0235437	.0738487
IOWN	.0680862	.0292855	2.32	0.020	.0106877	.1254846
AUDES	.0058982	.0069947	0.84	0.399	-.0078111	.0196076
BEQUL	.0778256	.0125803	6.19	0.000	.0531687	.1024824
BMF	.0032903	.0009577	3.44	0.001	.0014132	.0051675
_cons	-.0567596	.0184022	-3.08	0.002	-.0928273	-.020692
sigma_u	0					
sigma_e	.01363794					
rho	0	(fraction of variance due to u_i)				

Source: (STATA Output, 2024)

Table 4.6 Random effect model regression result of ROE

```
. xtreg ROE BSZ BGD IOWN AUDES BEQUL BMF, re
```

```
Random-effects GLS regression           Number of obs   =       145
Group variable: Year                   Number of groups =         5

R-sq:  within = 0.5540                  Obs per group:  min =        29
      between = 0.8547                                     avg =       29.0
      overall  = 0.5625                                     max =        29

Wald chi2(6) =       177.45
corr(u_i, X) = 0 (assumed)              Prob > chi2     =        0.0000
```

ROE	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
BSZ	-.0004748	.0033521	-0.14	0.887	-.0070449 .0060952	
BGD	.093038	.0313029	2.97	0.003	.0316855 .1543905	
IOWN	.0473879	.0714337	0.66	0.507	-.0926196 .1873954	
AUDES	.023079	.0170616	1.35	0.176	-.0103611 .0565191	
BEQUL	.0822323	.030686	2.68	0.007	.0220889 .1423758	
BMF	.0140513	.0023361	6.01	0.000	.0094726 .01863	
_cons	-.1551984	.044887	-3.46	0.001	-.2431753 -.0672215	
sigma_u	0					
sigma_e	.03292281					
rho	0	(fraction of variance due to u_i)				

Source: (STATA Output, 2024)

The random effect model of STATA has mainly two panels. The top panel summarizes the summary statistics for the model. It also provides information about the joint significance of the model, and value of R². While details regarding each regression coefficient are provided in the bottom panel. The result from each of the output panel will be discussed hereafter.

Table 4.5's value for the coefficient of determination (R²) is indicated in the upper left corner. The percentage of variance in the dependent variable (the ROA-measured profitability of commercial banks and insurance businesses) that can be accounted for by each of the six independent variables is known as the coefficient of determination. The overall adjusted coefficient of determination (R²) of

0.6965 (69.65%). This meant that 69.65% of variation in ROA is explained by the independent variables in the model. And there are numerous other factors outside the scope of this study that account for 30.35 percent of the variation in return on asset (ROA). The test result for the joint significant, which is determined by the Wald chi2 value of 316.65 and is statistically significant at the 0.00 percent level. This suggests that all of the independent variables taken into account were relevant in explaining Ethiopia's commercial banks' and insurance businesses' ROA-based profitability.

The value for the coefficient of determination (R^2) is displayed in Table 4.6. The profitability of commercial banks and insurance businesses, which is measured in ROE and is explained by all six independent factors, is the dependent variable. The coefficient of determination provides an explanation of the percentage variance in this variable. The overall adjusted coefficient of determination (R^2) was found to be 0.5625 (56.25%) in the model summary. This shows that 56.25% of the variability in ROE is explained by the independent variables in the model. And there are numerous other factors outside the scope of this study that account for the remaining 49.75 percent of the variation in return on equity. Furthermore, it shows the test result for the joint significant, which is determined by the Wald chi2 value of 177.45 and is statistically significant at the 0.00 percent level. This suggests that the independent variables together have a significant effect on Ethiopian financial performance of banks and insurances as measured in return on equity. The interpretations of each independent variable are discussed below.

Board size

The study findings in table 4.5 shows the coefficients of the BSZ (Board size) is negative (-0.0031) and According to the findings statistically significant effect between board size and performance of commercial banks and insurance companies as measured by ROA. It suggests that there is a negative relation between the number of directors and the financial performance of private commercial banks and insurances. Which means banks' and insurances financial performance is less successful the more board members they have, and vice versa. In other word it is expected that a single board member increase in the board will result 0.3% reduction in performance of banks and insurances. The outcome shows that smaller boards are more efficient at keeping an eye on and managing bank and insurance management, as well as contributing to lower agency expenses. For return on equity the coefficient of BSZ is negative (-0.00047) but

statistically insignificant effect between board size and performance of commercial banks and insurance companies as measured by ROE, implying that board size is nothing to do with the performance of Ethiopian private banks and insurances when it is measured by ROE.

The finding supports the negative impact of larger board sizes on firm performance. For instance, García-Ramos and García-Olalla (2020) found that larger boards tend to be less effective due to coordination issues and slower decision-making processes. This supports earlier findings that smaller boards contribute to better firm performance through more efficient governance and decision-making. The outcome is also in line with earlier research (Mori, 2014; Maharjan, 2019, Khan and Subhan (2019, Bhattraï 2017; Lamicihhane 2018; Yenesew. F. (2012) which contends that issues with decision-making, coordination, and communication worsen as the number of directors rises. Considering hypothesis one that large board size negatively impacts financial performance is failed to reject, as indicated by a significant p-value of (0.022) and negative coefficient for BSZ.

Gender Diversity on the Board

The result shows that the coefficient of BGD (Board gender diversity) is positive (0.0487) for ROA and (0.093) for ROE. It suggests that there is a positive relationship between board gender diversity and financial performance of banks and insurances companies as evaluated using both ROE and ROA. And statistically significant association between BGD and both return on asset and return on equity. In other word banks and insurances financial performance increased when there is a woman director in the board. The outcome can also be stated as follows: ROA and ROE is predicted to grow by 4.87% and 9.3% respectively with each additional gender composition.

Previous studies have increasingly highlighted the positive impact of gender diversity on board performance. For example, Pletzer et al. (2015) demonstrated that gender-diverse boards are linked to better financial performance, suggesting that diverse perspectives lead to more innovative and effective decision-making processes. Terjesen, Sealy, Wasim, et al., 2020 and Yenesew. F. (2012) also found that gender-diverse boards improve firm performance by enhancing governance and reducing the risk of corporate scandals. Hence, the hypothesis that the presence

of women on the board has a positive effect on financial performance is failed to reject, with significant p-values for ROA (0.000), ROE (0.003) and a positive coefficient for BGD.

Institutional Ownership

The finding shows that the coefficient of institutional ownership (IOWN) is positive (0.068) for ROA and (0.047) for ROE. And the study found that statistically significant relationship between institutional ownership and financial performance of Ethiopian banks and insurances when it is measured by ROA. But when return on equity is used as a measure, it becomes insignificant. The coefficient of institutional ownership (0.0681) and (0.047) of ROA and ROE respectively shows that single institutional investors invest in the banks and insurances will result increase in the bank and insurance financial performance by 6.8% and 4.7% as measured by return on asset and return on equity respectively.

Which is in line with the finding of this study, the empirical research underscores the importance of institutional investors in improving firm performance. According to Edmans (2014), institutional ownership can lead to better monitoring of management and alignment of interests between shareholders and managers. This is consistent with findings by Li, Moshirian, and Pham (2007), who reported that higher institutional ownership enhances firm performance due to active oversight and pressure for better corporate governance. Hence, the hypothesis that institutional ownership positively affects financial performance is failed to reject, with a significant p-value for ROA (0.020).

Audit Committee Size

The study found that relationship between audit committee size and ROA is positive (0.0059) for ROA and (0.023) for ROE. But it is not statistically significant. Which implies AUDS (Audit committee size) did not have significant effect on ROA and ROE of banks and insurance companies in Ethiopia.

Recent studies emphasize the quality over the size of audit committees. For instance, Chan and Li (2008) found that the effectiveness of the audit committee in enhancing financial reporting quality is more important than its size. Similarly, García-Sánchez, Martínez-Ferrero, and García-Meca (2017) reported that the expertise and independence of audit committee members are more

critical factors in improving firm performance. Hence, the hypothesis that audit committee size negatively affects financial performance is rejected, as the p-values of (0.399) for ROA and (0.176) for ROE.

Educational Qualification of Board Members

(BEQUL) The educational background of board members has a positive and significant impact on both return on asset and return on equity with a coefficient of (0.077) and (0.082) respectively. Board members educational qualification explains the variation on banks and insurances financial performance with a coefficient of (0.077) for ROA and (0.082) for ROE. The findings show that the financial performance of commercial bank and insurance is significantly and positively impacted by an increase in the number of directors with higher educational qualifications and vice versa. This implies that the board's ability to supervise the board's activities and enhance financial performance is greatly aided by the presence of qualified directors.

a positive coefficient for BEQUL. In line with the finding of the present study, previous research underscores the importance of educational qualifications for board members. According to Rao and Tilt (2016), boards with higher educational qualifications contribute to better governance and strategic decision-making. Additionally, Fernandes and Fich (2016) found that firms with more educated boards exhibit better financial performance due to improved oversight and decision-making capabilities. Hence, the hypothesis that board members' educational qualification positively affects financial performance is failed to reject, with significant p-value of (0.000) for ROA and (0.007) for ROE.

Board Meeting Frequency

Lastly, the study shows a positive coefficient of (0.0033) for ROA and (0.014) for ROE and statistically significant relationship between board meeting frequency and financial performance of Ethiopian bank and insurance as it is measured by return on asset and return on equity. In other word a higher frequency of meetings will enhance businesses' financial success. Thus, the frequency of meetings significantly improves the performance of the company.

Similarly, the previous literature supports the idea that frequent board meetings lead to better firm performance. For instance, Brick and Chidambaran (2010) found that frequent board meetings are associated with improved monitoring and timely decision-making. Similarly, Alemany, Villegas, Ferrer & Banderlipe, 2012 and Villanueva-Villar (2021) reported that boards that meet more often are better positioned to address issues promptly and effectively, leading to better firm performance. Hence, the hypothesis that board meeting frequency positively affects financial performance is failed to reject, with significant p-values of (0.001) for ROA and a (0.000) for ROE.

Generally, BSZ (Board size), BGD (Board gender diversity), IOWN (Institutional ownership), BEQUAL (Board educational Qualification), and BMF (Board meeting frequency) have statistically significant on return on asset. Whereas, AUDES (Audit committee size) did not have significant effect on ROA of banks and insurance companies in Ethiopia. And the coefficients sign of the BGD (Board gender diversity), IOWN (Institutional ownership), BEQUAL (Board educational Qualification), and BMF (Board meeting frequency) and AUDES (Audit committee size) is positive with return on asset (ROA). This indicates the existence of positive relationship between ROA and aforementioned independent variables, which were found as expected except the audit committee size. On the other hand, negative relationship noted with BSZ(Board size), which implies this variable negatively related with ROA of banks and insurance companies in Ethiopia.

Three variables had statistically significant effect on profitability of commercial banks and insurance companies measured by ROE. These variables are: BGD (Board gender diversity), BEQUAL (Board educational Qualification), and BMF (Board meeting frequency). Whereas, BSZ (Board size), IOWN (Institutional ownership), and AUDES (Audit committee size) did not have significant effect on ROE of banks and insurance companies in Ethiopia. the coefficients sign of the BGD (Board gender diversity), IOWN (Institutional ownership), BEQUAL (Board educational Qualification), and BMF (Board meeting frequency) and AUDES (Audit committee size) were positive with ROE. This suggests that these previously mentioned independent factors and ROA have a positive connection, which were founded as expected. Whereas negative relationship noted with BSZ (Board size), which implies this variable negatively related with ROE of banks and insurance companies in Ethiopia.

4.3. Summary of hypothesis test

Table 4.7 Summary of Hypothesis test

Hypothesis	Acceptance	Remarks
H1: Large board size had a negative impact on bank and insurances financial performance.	Failed to reject	P-value for ROA (0.022) is significant and coefficient for BSZ is negative
H2: The presence of women on the board of directors of banks has a positive effect on bank and insurances financial performance.	Failed to reject	P-value for ROA (0.00) and ROE (0.003) are significant and coefficient for BGD is positive
H3: Board Members Educational Qualification has a positive effect on bank and insurances financial performance.	Failed to reject	P-value for ROA (0.00) and ROE (0.007) are significant and coefficient for BEQUL is positive.
H4: Audit Committee Size has a negative effect on bank and insurances financial performance.	Rejected	P-value for ROA (0.399) and ROE (0.176) are insignificant
H5: Institutional ownership has a positive effect on bank and insurances financial performance.	Failed to reject	P-value for ROA (0.020) is significant and coefficient for IOWN is positive
H6: The frequency of board meetings has a positive effect on the financial performance of banks and insurance companies.	Failed to reject	P-value for ROA (0.001) and ROE (0.000) are significant and coefficient for BMF is positive.

Source: (Research Findings, 2024)

Overall, this study's conclusions align with current empirical studies, highlighting the importance of optimizing board size, enhancing gender diversity, encouraging institutional ownership, prioritizing educational qualifications of board members, and maintaining an appropriate frequency of board meetings. These factors collectively contribute to better success of the company as measured by ROA but when ROE takes as a performance measure most of the corporate governance variable are insignificant or they didn't affect the return on equity of

private commercial banks and insurances. So, Companies should consider these insights to improve their governance structures and financial outcomes.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

In this section accordingly, the major findings of study, conclusion and recommendation of study and Directions for future research also laid down.

5.1. Summary of Findings

The corporate governance variables that are expected to affect performance have been identified based on the main objective. These variables include board size, gender diversity on the board, educational background of board members, audit committee size, institutional ownership, and frequency of board meetings. Two metrics are used to assess the profitability and performance of a company: return on equity and return on assets Using 16 private commercial banks and 13 private insurance businesses as a sample, balanced data of 29 commercial banks and insurances from 2019 to 2023 was used. Both descriptive and inferential statistics were applied to the data analysis process. The Ordinary Least Square (OLS) model's multiple linear regression approach was used to investigate the impact of corporate governance on the financial performance of Ethiopian banks and insurance companies. Before utilizing the OLS regression, the models were examined to make sure they complied with the CLRM assumptions. The models have satisfied every one of the requirements of the traditional linear regression model. Based on the results of the Hausman test, Random effect model was chosen to assess the effect of corporate governance on financial performance in Ethiopian banks and insurances.

The study investigated the impact of corporate governance on the financial performance of banks and insurance companies in Ethiopia. The descriptive statistics provide valuable insights into the governance structures and financial performance of commercial banks and insurance companies in Ethiopia. The descriptive statistics for 29 commercial banks and insurance companies in Ethiopia from 2019 to 2023 reveal key insights into their financial performance and governance structures. The average Return on Assets (ROA) is 3.79% with moderate variability, while the average Return on Equity (ROE) is 16.62%, also showing moderate variability. Governance metrics indicate that boards average 9.62 members, with 19% gender diversity and 61% of

members having higher education qualifications. Institutional ownership averages 11%, audit committees typically have around 3 members, and boards meet approximately 13 times per year, reflecting active engagement. The data show moderate variability across most metrics, indicating differences in governance practices and financial outcomes among the sampled firms. The relatively small board sizes, active meeting frequencies, and moderate gender diversity, and educational qualifications reflect the governance dynamics within these organizations.

Furthermore, through regression analysis, several key findings emerged:

- **Board Size:** Larger board sizes were associated with a negative impact on financial performance.
- **Board Gender Diversity:** The presence of women on boards showed a positive relation with financial performance.
- **Board Educational Qualification:** Board members with higher educational qualifications were linked to improved financial performance.
- **Audit Committee Size:** The size of audit committees did not significantly influence financial performance.
- **Institutional Ownership:** Institutional ownership positively affected financial performance, indicating the importance of institutional investors in governance.
- **Board Meeting Frequency:** Companies with more frequent board meetings tended to exhibit better financial performance.

These findings highlight the importance of optimizing board composition, prioritizing diversity, and encouraging institutional investment to enhance financial performance in the banking and insurance sectors in Ethiopia.

5.2. Conclusion

In conclusion, the study sheds light on the critical relationship between corporate governance practices and the financial performance of banks and insurance companies in Ethiopia. By analyzing various governance factors through regression analysis, several significant insights have been gleaned.

Firstly, the findings underscore the importance of board composition in shaping financial outcomes. Gender diversity, optimal board size, and educational qualifications of board members emerged as key determinants of financial success. A larger board size was associated with a negative impact on financial performance. Conversely, the presence of women on boards showed a positive correlation with financial performance. Additionally, board members with higher educational qualifications were linked to improved financial performance. Moreover, the involvement of institutional investors was found to positively influence governance effectiveness and financial performance. Suggesting that the involvement of institutional investors can enhance governance and performance.

Furthermore, the frequency and effectiveness of board meetings were highlighted as crucial factors in driving better financial performance. Regular and well-structured board meetings facilitate timely decision-making and oversight, leading to improved financial outcomes. And Regular board meetings demonstrate a commitment to transparency, accountability, and sound governance practices. By actively engaging in oversight and decision-making, the board can foster trust among stakeholders and support sustainable performance. However, the size of audit committees did not show a significant influence on financial outcomes. Institutional ownership positively affected financial performance,

Overall, drawing conclusions from these findings, it became clear that optimizing board composition, prioritizing diversity, and encouraging institutional investment are key strategies for enhancing financial performance in the banking and insurance sectors. The study's findings provide valuable insights for both policymakers and practitioners in the Ethiopian banking and insurance sectors. By prioritizing governance practices that enhance board composition, diversity, and engagement, firms can bolster their financial performance and ensure sustainable growth in the dynamic business landscape and make them competent. Moving forward continued research and implementation of effective governance strategies will be vital for fostering a robust and resilient financial sector in Ethiopia.

5.3. Recommendation

In light of the study's findings, several recommendations are proposed to enhance corporate governance practices and improve financial performance in Ethiopian banks and insurance companies:

- **Board Size (BSZ):** Given the negative impact of larger board sizes on financial performance, firms should consider optimizing their board size based on their unique requirement and situation. This may involve reassessing the current composition and streamlining membership to ensure a more efficient decision-making process.
- **Board Gender Diversity (BGD):** firms should actively promote gender diversity on their boards. Implementing diversity initiatives, such as targeted recruitment and leadership development programs for women, can help foster a more inclusive boardroom culture.
- **Board Educational Qualification (BEQUL):** firms should prioritize recruiting individuals with diverse educational backgrounds and relevant expertise. Investing in ongoing education and training programs for board members can also enhance governance effectiveness.
- **Audit Committee Size (AUDS):** bank and insurances should focus on ensuring the quality and effectiveness of their audit committees. This may involve appointing members with relevant expertise in financial reporting and oversight, regardless of committee size.
- **Institutional Ownership (IOWN):** firms should actively seek to attract institutional investors. Building relationships with institutional shareholders and addressing their concerns can help enhance governance practices and financial performance of bank and insurance.
- **Board Meeting Frequency (BMF):** Given the positive relationship between board meeting frequency and financial performance, firms should ensure that board meetings are held regularly and are focused on strategic decision-making. Banking and insurance

are inherently risk-sensitive sectors. Regular board meetings provide opportunities to assess and mitigate risks effectively. Timely discussions on risk management strategies, compliance issues, and regulatory changes can help minimize potential threats to financial stability and enhance overall performance. Establishing clear agendas and allocating sufficient time for discussion on key governance and performance issues can maximize the effectiveness of board meetings. And it's essential to emphasize the quality of discussions and decision-making rather than solely focusing on the quantity of meetings.

By implementing these specific recommendations based on the specific findings related to each study variable, Ethiopian banks and insurance companies can enhance their corporate governance practices and improve financial performance in a targeted and strategic manner and can be ready for the upcoming significant computation.

5.4. Area of Further Research

Building on the findings of the current study, several areas for further research could be explored to deepen understanding and address gaps in the literature regarding the financial performance and corporate governance of Ethiopian banks and insurance firms:

- **Qualitative Studies:** Complementing quantitative analysis with qualitative research methods, such as interviews or case studies, can offer deeper insights into the mechanisms through which corporate governance practices influence financial performance. Exploring the perspectives and experiences of board members, executives, and other stakeholders can provide valuable context and nuance to the findings.
- **Comparative Analysis:** Comparing corporate governance practices and financial performance across different sectors within the Ethiopian economy or with other countries can help identify factors that contribute to variations in outcomes. Cross-country comparisons can also provide insights into the impact of cultural, institutional, and regulatory differences on governance practices and performance.
- **Effectiveness of Regulatory Framework:** Investigating the effectiveness of existing regulatory frameworks and corporate governance guidelines in Ethiopia in promoting good governance practices and enhancing financial performance can provide valuable

insights for policymakers and regulators. Assessing the implementation and enforcement of governance regulations and their impact on firm behavior and performance can inform future policy development and reforms.

- **Stakeholder Perspectives:** Investigating the perspectives and expectations of various stakeholders, including shareholders, regulators, employees, and customers, regarding corporate governance practices and their perceived impact on financial performance can provide a comprehensive understanding of governance dynamics. Understanding stakeholder priorities and preferences can inform governance strategies and decision-making processes.

REFERENCES

- Aleman, R., Villegas, M. M., & Villanueva-Villar, M. (2021). The impact of board meeting frequency on corporate performance: Evidence from the Spanish market. **Corporate Governance: The International Journal of Business in Society*, 21*(1), 65-85. <https://doi.org/10.1108/CG-03-2020-0102>
- Adams, R. B., & Mehran, H. (2005). Corporate Performance, Board Structure, and Their Determinants in the Banking Industry. *Journal of Banking & Finance*, 30(12), 351-378.
- Arora, A., & Sharma, C. (2016). Corporate governance and firm performance in developing countries: Evidence from India. **Corporate Governance*, 16*(2), 420–436. <https://doi.org/10.1108/CG-01-2016-0018>
- Athar, M., Chughtai, S., & Rashid, A. (2023). Corporate governance and bank performance: Evidence from banking sector of Pakistan. **Corporate Governance*, 23*(6), 1339-1360. <https://doi.org/10.1108/CG-06-2022-0261>
- Barney, J. B., & Harrison, J. S. (2020). Stakeholder theory at the crossroads. **Business and Society*, 59*(2), 203-212. <https://doi.org/10.1177/0007650318796792>
- Berger, A. N., Kick, T., & Schaeck, K. (2014). Executive board composition and bank risk taking. **Journal of Corporate Finance*, 28*, 48-65. <https://doi.org/10.1016/j.jcorpfin.2013.11.006>
- Beasley, M. S., Carcello, J. V., Hermanson, D. R., & Neal, T. L. (2009). Corporate Governance and the Audit Committee: What Do We Know and What Can We Learn? *Journal of Accounting Literature*, 25, 1-43.
- Boyle, G., & Jane, J. (2011). New Zealand corporate boards in transition: Composition, activity and incentives between 1995 and 2010 (Working Paper No. 36). University of Canterbury,
- Brick, I. E., & Chidambaran, N. K. (2010). Board meetings, committee structure, and firm value. **Journal of Corporate Finance*, 16*(4), 533-553. <https://doi.org/10.1016/j.jcorpfin.2010.06.003>

Chabachib, M., Hersugondo, H., Ardiana, E., & Pamungkas, I. D. (2019). Analysis of company characteristics of firm values: Profitability as intervening variables. **International Journal of Financial Research*, 11*(1), 60–70.

Chan, K. C., & Li, J. (2008). Audit committee and firm value: Evidence on outside top executives as expert-independent directors. **Corporate Governance: An International Review*, 16*(1), 16-31.

Cheng, S. (2008). Board size and the variability of corporate performance. *Journal of Financial Economics*, 87(1), 157-176.

Chenini, H., & Jarboui, A. (2018). Analysis of the impact of governance on bank performance: Case of commercial Tunisian banks. *Journal of the Knowledge Economy*, 9, [page numbers]. <https://doi.org/10.1007/s13132-016-0376-6>

Chrisman, J. J. (2019). Stewardship theory: Realism, relevance, and family firm governance. **Entrepreneurship Theory and Practice**. Advance online publication. <https://doi.org/10.1177/1042258719838472>

Ciftci, I., Tatoglu, E., Geoffrey, W., Demirbag, M., & Zaim, S. (2019). Corporate governance and firm performance in emerging markets: Evidence from Turkey. **International Business Review*, 28*(1), 90–103.

Conger, J. A., Finegold, D., & Lawler, E. E. (1998). Appraising Boardroom Performance. *Harvard Business Review*, 76(1), 136-148.

Edmans, A. (2014). Blockholders and corporate governance. **Annual Review of Financial Economics*, 6*(1), 23-50.

El-Chaarani, H., Abraham, R., & Skaf, Y. (2022). The Impact of Corporate Governance on the Financial Performance of the Banking Sector in the MENA (Middle Eastern and North African) Region: An Immunity Test of Banks for COVID-19. **Journal of Risk and Financial Management*, 15*(2), 56-78. <https://doi.org/10.3390/jrfm15020082>

- Ellul, A., & Yerramilli, V. (2013). Stronger Risk Controls, Lower Risk: Evidence from U.S. Bank Holding Companies. *The Journal of Finance*, 68(5), 1757-1803.
- Elyasiani, E., & Jia, J. (2010). Distribution of Institutional Ownership and Corporate Firm Performance. *Journal of Banking & Finance*, 34(3), 606-620.
- Enad, O., & Gerinda, S. (2022). Enhancing financial performance of the banks: The role of customer response and operations management. **Journal of Innovation and Entrepreneurship*, 11*, 28. <https://doi.org/10.1186/s13731-022-00211-w>
- Erhardt, N. L., Werbel, J. D., & Shrader, C. B. (2003). Board of director diversity and firm financial performance. **Corporate Governance: An International Review*, 11*(2), 102-111.
- Fernandes, C., Farinha, J., Martins, F. V., & Mateus, C. (2017). Supervisory boards, financial crisis and bank performance: Do board characteristics matter? **Journal of Banking Regulation*, 18*(4), 310-337.
- Fernandes, C., Farinha, J., Martins, F. V., et al. (2018). Bank governance and performance: A survey of the literature. **Journal of Banking Regulation*, 19*(3), 236–256. <https://doi.org/10.1057/s41261-017-0045-0>
- Fernandes, N., & Fich, E. M. (2016). Are outside directors with greater board tenure valuable? Evidence from the U.S. banking industry. **International Review of Economics & Finance*, 45*, 1-19.
- Ferrer, R. C., & Banderlipe, M. (2012). The influence of corporate board characteristics on firm performance of publicly listed property companies in the Philippines. **Academy of Accounting & Financial Studies Journal*, 16*(4), 123–142.
- Firehiwot, K. (2016). Effect of corporate governance on financial performance of commercial banks in Ethiopia. Master's thesis, St. Mary University, Addis Ababa.
- Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder theory and the corporate objective revisited. **Organization Science*, 15*(3). <https://doi.org/10.1287/orsc.1040.0066>

- Francis, B., Hasan, I., & Wu, Q. (2015). Professors in the Boardroom and Their Impact on Corporate Governance and Firm Performance. *Financial Management*, 44(3), 547-581.
- Gande, A., & Kalpathy, S. (2017). CEO compensation and risk-taking at financial firms: Evidence from U.S. federal loan assistance. *Journal of Corporate Finance*, 47*, 131-150. <https://doi.org/10.1016/j.jcorpfin.2017.09.001>
- García-Ramos, R., & García-Olalla, M. (2020). Board characteristics and firm performance in public founder- and non-founder-led family businesses. *Journal of Business Research*, 115*, 432-443. <https://doi.org/10.1016/j.jbusres.2020.05.019>
- García-Sánchez, I. M., Martínez-Ferrero, J., & García-Meca, E. (2017). Board of directors and corporate social responsibility in banking: The moderating role of the CEO power. *Journal of Business Ethics*, 141*(2), 385-402.
- Ghazali, N. A. M. (2010). Ownership structure, corporate governance and corporate performance in Malaysia. *International Journal of Commerce & Management*, 20*(2), 109–119.
- Gyamerah, S., & Agyei, A. (2016). OECD Principles of Corporate Governance: Compliance among Ghanaian Listed Companies. *International Journal of Advanced Multidisciplinary Research*, 3*(11), 82–92. <https://doi.org/10.22192/ijamr>
- Habtamu, A. (2012). The relationship between corporate governance structure and financial performance: Evidence from Ethiopian banks. Master's thesis, Bahir Dar University.
- Harrison, J. S., Freeman, R. E., & de Abreu, M. C. S. (2015). Stakeholder theory as an ethical approach to effective management: Applying the theory to multiple contexts. *Revista Brasileira de Gestao de Negocios*, 17*(55), 858–869. <https://doi.org/10.7819/rbgn.v17i55.2647>
- Hartzell, J. C., & Starks, L. T. (2003). Institutional Investors and Executive Compensation. *The Journal of Finance*, 58(6), 2351-2374.
- Harvey Pamburai, H., Chamisa, E., Abdulla, C., & Smith, C. (2015). An analysis of corporate governance and company performance: A South African perspective. *South African Journal of Accounting Research*, 29*(2), 115–131.

Kiptoo, I. K., Kariuki, S. N., & Ocharo, K. N. (2021). Corporate governance and financial performance of insurance firms in Kenya. *Cogent Business & Management, 8*(1), 1938350. <https://doi.org/10.1080/23311975.2021.1938350>

Jadi, D. (2015). An empirical analysis of determinants of financial performance of insurance companies in the United Kingdom (Doctoral thesis). University of Bradford, United Kingdom.

James, Chen. (2023). Corporate governance definition, principles, models, and examples. Investopedia. Retrieved from <https://www.investopedia.com/terms/c/corporategovernance.asp>

Jensen, M. C. (2002). Value maximization and the corporate objective function. *Business Ethics Quarterly, 12*(2), 235–256. <https://doi.org/10.2307/3857812>

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305-360.

Jiang, C., Feng, G., & Zhang, J. (2012). Corporate governance and bank performance in China. *Journal of Chinese Economic and Business Studies, 10*(2), 131–146.

Jude, O. J., Bernard, A. C., & Chidimma, N. E. (2019). Corporate governance and bank performance in Nigeria: An empirical study. *European Scientific Journal, ESJ, 15*(28), 76. <https://doi.org/10.19044/esj.2019.v15n28p76>

Kantudu, Prof. Aliyu Sulaiman. (2007, July 13). Capital Investment Appraisal Practices of Quoted Firms in Nigeria. SSRN.

Kefiyalew, B., & Dagnachew, A. (2020). Corporate governance and its effects on financial performance of banks: Evidence from selected private commercial banks in Ethiopia. *Journal of Economics and International Finance, 12*(4), 187–195.

Khan, A. W., & Subhan, Q. A. (2019). Impact of board diversity and audit on firm performance. *Cogent Business & Management, 6*(1), 161–171.

Khan, H. (2011). A literature review of corporate governance. *International Conference on E-Business, Management and Economics, 25*, 1–5.

- Khatib, S. F. A., Abdullah, D. F., Elamer, A., & Hazaea, S. A. (2022). The development of corporate governance literature in Malaysia: A systematic literature review and research agenda. **Corporate Governance, 22*(5), 1026–1053.* <https://doi.org/10.1108/CG-12-2020-0565>
- Kibrysfaw, G. (2013). Corporate governance mechanisms: Impact on performance: Ethiopian commercial banks. Master's thesis, Addis Ababa University, Addis Ababa.
- King, T., Srivastav, A., & Williams, J. (2016). What's in an education? Implications of CEO education for bank performance. **Journal of Corporate Finance, 37*, 287-308.*
- Kiptoo, I., et al. (2021). Title of the paper. **Cogent Business & Management, 8*, Article 1938350.* <https://doi.org/10.1080/23311975.2021.1938350>
- Klepczarek, E. (2017). Corporate governance theories in the new institutional economics perspective: The classification of theoretical concepts. **Studia Prawno-Ekonomiczne, 105*.* <https://doi.org/10.26485/spe/2017/105/14>
- Kluvers, R., & Tippett, J. (2011). An exploration of stewardship theory in a not-for-profit organization. **Accounting Forum, 35*(4), 275–284.*
- Koutoupis, A., Kyriakogkonas, P., Pazarskis, M., & Davidopoulos, L. (2021). Corporate governance and COVID-19: A literature review. **Corporate Governance, 21*(6), 969–982.*
- Kumar, R. (2005). **Research methods: A step by step guide for beginners.** New Delhi: SAGE Publishers.
- Laerd Dissertation. (2012). Total population sampling. Retrieved from <https://dissertation.laerd.com/total-population-sampling.php#what>
- Li, D., Moshirian, F., & Pham, P. K. (2007). Why do foreign firms list in the United States? **Journal of Financial Economics, 86*(2), 635–664.*
- Lipton, M., & Lorsch, J. W. (1992). A modest proposal for improved corporate governance. *The Business Lawyer, 48(1), 59-77.*

- Lozano, M. B., Martínez, B., & Pindado, J. (2016). Corporate governance, ownership and firm value: Drivers of ownership as a good corporate governance mechanism. **International Business Review, 25*(6), 1333–1343.*
- Magdi, R., & Nadareh, R. (2002). Corporate governance: A framework for implementation. **Britain World Group Journal, 20*, 123-132.*
- Maghyereh, A. I. (2015). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *International Journal of Business and Social Science, 6(5), 114-127.*
- Maharjan, R. (2019). The effect of corporate governance on financial performance of insurance companies in Nepal. **International Research Journal of Management Science, 4*(1), 100–117.*
- Mashayekhi, B., & Bazaz, M. S. (2008). Corporate governance and firm performance in Iran. *Journal of Contemporary Accounting & Economics, 4(2), 156–172.*
- McKinsey & Company. (2020). Diversity Wins: How Inclusion Matters. Retrieved from McKinsey & Company
- Megbaru, M. (2014). The effect of corporate governance mechanisms on commercial banks financial performance in Ethiopia. **Journal of Research in Management and Technology, 3*(11), 51-61.*
- Miralles-Quirós, M. M., Luis Miralles-Quirós, J., & Redondo Hernández, J. (2019). ESG performance and shareholder value creation in the banking industry: International differences. *Sustainability, 11(5), 1404.*
- Mitiku, B. (2015). Impact of corporate governance mechanism on financial performance of selected insurers in Ethiopia. Master's thesis, Addis Ababa University, Addis Ababa.
- Monda, B., & Giorgino, M. (2013). Corporate governance and shareholder value in listed firms.
- Mori, N. (2014). Directors' diversity and board performance: Evidence from East African microfinance institutions. **Journal of African Business, 15*(2), 100–113.*

National Bank of Ethiopia. (2019). Ethiopian bank corporate governance directive No. SBB/71/2019.

National Bank of Ethiopia. (2015). Ethiopian insurance corporate governance directive No. SIB/42/2015.

Nguyen, D. D. L., Hagendorff, J., & Eshraghi, A. (2015). Which executive characteristics create value in banking? Evidence from appointment announcements. **Corporate Governance: An International Review*, 23*(2), 112-128.

Nguyen, T. D. Ch., Phan, H. N., Le H. S., Nguyen, T. Th. Tr., & Petrov, A. (2020). Corporate governance and bank performance: A case of Vietnam banking sector. **Journal of Security and Sustainability Issues*, 10*(2), 63-75. [https://doi.org/10.9770/jssi.2020.10.2\(6\)](https://doi.org/10.9770/jssi.2020.10.2(6))

Nikolopoulou, K. (2023, June 22). What Is Purposive Sampling? | Definition & Examples. Scribbr. Retrieved December 12, 2023, from <https://www.scribbr.com/methodology/purposive-sampling/>

OECD. (2004). Organisation for Co-operation and Economic Development. OECD Principles of Corporate Governance, 66.

Pereira, V. M. M., & Filipe, J. A. (2015). Measuring the board's members effect on banks' performance: An application to Portugal. **International Journal of Latest Trends in Finance and Economic Sciences*, 5*(4), 1015-1030.

Pletzer, J. L., Nikolova, R., Karataş-Özkan, M., & Voordeckers, W. (2015). Does gender matter? Female representation on corporate boards and firm financial performance - A meta-analysis. **PLOS ONE*, 10*(6), e0130005.

Pompei, C. I., & C., D. (2020). A structured literature review of corporate governance and performance research within an emerging country setting. **Journal of Accounting and Management Information Systems*, 19*(4), 707-733.

Rao, K., & Tilt, C. (2016). Board composition and corporate social responsibility: The role of diversity, gender, strategy, and decision-making. **Journal of Business Ethics*, 138*(2), 327-347.

Rashid, A., Lodh, S., De Zoysa, A., & Rudkin, K. (2010). Board composition and firm performance: Evidence from Bangladesh. *Australasian Accounting Business and Finance Journal*, 4*(1), 76-95.

Riyadh, H. A., Sukoharsono, E. G., & Alfaiza, S. A. (2019). The impact of corporate social responsibility disclosure and board characteristics on corporate performance. *Cogent Business & Management*, 6*(1), 647–917.

Rose, C. (2007). Does female board representation influence firm performance? The Danish evidence. *Corporate Governance: An International Review*, 15(2), 404-413. <https://doi.org/10.1111/j.1467-8683.2007.00570.x>

Rouf, A. (2012). The financial performance and corporate governance disclosure: A study in the annual reports of listed companies of Bangladesh. *Pakistan Journal of Commerce and Social Sciences*, 6*(1), 1-11.

Ruin, J. E. (2001). *Essentials of Corporate Governance*. MICG, Malaysia.

Ryan, Fuhrmann. (2022). Return on Equity (ROE) vs Return on Assets (ROA): What's the Difference?. Investopedia. <https://www.investopedia.com/ask/answers/070914/what-are-main-differences-between-return-equity-roe-and-return-assets-roa.asp>

Shan, L. H. (2018). *Efficiency, productivity and competitiveness of the insurance industry in Malaysia and Australia* (Doctoral thesis). Universiti Putra, Malaysia.

Smith, A., Cannan, E., & Stigler, G. (1977). An Inquiry into the Nature and Causes of the Wealth of Nations. *The Economic Journal*, 1(56).

Team IRIS CARBON. (2023). The role of financial reporting management in corporate governance.

Teferi Deyuu Alemi. (2018). Quality of Corporate Financial Reporting in Ethiopia. *Journal of Finance and Accounting*, 9(15).

Terjesen, S., Sealy, R., & Singh, V. (2009). Women directors on corporate boards: A review and research agenda. *Corporate Governance: An International Review*, 17(3), 320-337.

The Financial times <https://www.ft.com/content/cca86246-b9dd-11e9-8a88-aa6628ac896c>

The Financial Times. (2019, August 12). Foreign bank. *The Financial Times*.

Ujunwa, A. (2012). Board Characteristics and the Financial Performance of Nigerian Quoted Firms. *The International Journal of Business in Society*, 12(5), 656–674.

Ujunwa, A. (2012). Board Characteristics and the Financial Performance of Nigerian Quoted Firms. *The International Journal of Business in Society*, 12(5), 656–674.

UKEssays. (November 2018). Corporate governance and firm performance. <https://www.ukessays.com/essays/finance/corporate-governance-and-firm-performance.php?vref=1>

Vafeas, N. (1999). Board Meeting Frequency and Firm Performance. *Journal of Financial Economics*, 53(1), 113-142.

Vicente-Ramos, W., Reymundo, K., Pari, L., Rudas, N., & Rodriguez, P. (2020). The effect of good corporate governance on banking profitability. *Management Science Letters*, 10(9), 2045–2052

Wang, Y., Firth, M., & Xu, L. (2018). Large board size and decreasing firm value in China: The role of board meetings and firm ownership. *Asia Pacific Journal of Management*, 35(2), 327-347.

Wasim Syed, M., Ziaullah, M., & Riffat, N. (2020). Studied corporate governance and financial performance of insurers in Pakistan. *Journal of Green Finance*, 2(3), 243–262.

World bank. (2016). Corporate governance. Retrieved from <https://www.worldbank.org/en/topic/financialsector/brief/corporate-governance>

Yenesew. F. (2012). Impact of Corporate Governance Mechanisms on firm's financial performance: Evidence from commercial banks in Ethiopian, MSc thesis, Addis Ababa university

Yusoff, W. F. W., & Alhaji, I. A. (2014). Insight of Corporate Governance Theories. *Journal of Business & Management*, 1(1), 52– 63. <https://doi.org/10.12735/jbm.v1i1p52>.

Zelalem, B. A., Abebe, A. A., & Bezabih, S. W. (2022). Corporate governance and financial performance in the emerging economy: The case of Ethiopian insurance companies. *Cogent Economics & Finance*, 10*(1), 2117117. <https://doi.org/10.1080/23322039.2022.2117117>

APPENDICES

ADDIS ABABA UNIVERSITY
COLLAGE OF BUSINESS AND ECONOMICS
MBA (FINANCE) PROGRAM

Appendix I: RESEARCH QUESTIONNAIRE

Dear respondents the purpose of this questionnaire is to gather data for research to be conducted on the **“the effect of corporate governance on Financial Performance”**, **The Case of Banks and Insurances in Ethiopia**, for partial fulfillment of the requirement for Master of Business Administration (Finance). The results of this study will be used purely for academic purposes and your answers to the questionnaire will be treated with confidentiality. So you are highly requested to respond genuinely.

For any information please do not hesitate to contact me mobile no: 0946409683 or Email address:- mastewalhailu03@gmail.com

Note: - Kindly tick (✓) you feel appropriate for your feedback

Thank you in advance for your cooperation!!!

Part I: General information

1. Financial institution type

- Bank
- Insurance

Part two: composition of the board

🚩 Fill the number only for each period.

Variables	2019	2020	2021	2022	2023
1. Total number of the board members					
2. Number of board members that have MA degree and above					
3. Gender composition: total number of females in the board					
4. If your institution has an audit committee: what is the total number of audit committee member					
5. How many times the board meets on a year					
6. Percentage of total shares held by institutional investors					

Thank you again

February, 2024

Appendix II: STATA Output

Hausman Test for selecting FEM and REM)

```
. hausman fixed random
```

	Coefficients		(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
	(b) fixed	(B) random		
BSZ	-.0031632	-.0031376	-.0000257	.0002214
BGD	.0489814	.0486962	.0002852	.0021457
IOWN	.066973	.0680862	-.0011132	.0050122
AUDS	.006215	.0058982	.0003168	.0013477
BEQUL	.0788633	.0778256	.0010377	.002499
BMF	.0032438	.0032903	-.0000465	.0002058

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(6) = (b-B)' [(V_b-V_B)^(-1)] (b-B)
= 0.32
Prob>chi2 = 0.9994

VFI result for Multicollinearity test

. estat vif

Variable	VIF	1/VIF
AUDS	1.92	0.522109
BSZ	1.85	0.539729
IOWN	1.84	0.544099
BMF	1.76	0.568128
BGD	1.65	0.607199
Mean VIF	1.80	

Random effect model regression result (ROA)

```
. xtreg ROA BSZ BGD IOWN AUDES BEQUL BMF, re
```

```

Random-effects GLS regression           Number of obs   =       145
Group variable: Year                   Number of groups =         5

R-sq:  within = 0.6948                 Obs per group:  min =        29
      between = 0.8385                                     avg  =       29.0
      overall  = 0.6965                                     max  =        29

                                           Wald chi2(6)     =    316.65
corr(u_i, X) = 0 (assumed)             Prob > chi2      =     0.0000

```

ROA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
BSZ	-.0031376	.0013743	-2.28	0.022	-.0058311	-.0004441
BGD	.0486962	.0128332	3.79	0.000	.0235437	.0738487
IOWN	.0680862	.0292855	2.32	0.020	.0106877	.1254846
AUDES	.0058982	.0069947	0.84	0.399	-.0078111	.0196076
BEQUL	.0778256	.0125803	6.19	0.000	.0531687	.1024824
BMF	.0032903	.0009577	3.44	0.001	.0014132	.0051675
_cons	-.0567596	.0184022	-3.08	0.002	-.0928273	-.020692
sigma_u	0					
sigma_e	.01363794					
rho	0	(fraction of variance due to u_i)				

Fixed effect model regression result (ROA)

. xtreg ROA BSZ BGD IOWN AUDES BEQUL BMF, fe

```

Fixed-effects (within) regression      Number of obs   =      145
Group variable: Year                  Number of groups =        5

R-sq:  within  = 0.6948                Obs per group:  min =      29
      between = 0.8353                    avg   =      29.0
      overall  = 0.6964                    max   =      29

corr(u_i, Xb) = -0.0321                F(6,134)        =      50.85
                                          Prob > F         =      0.0000
  
```

ROA	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
BSZ	-.0031632	.001392	-2.27	0.025	-.0059163 - .0004101
BGD	.0489814	.0130113	3.76	0.000	.0232473 .0747155
IOWN	.066973	.0297113	2.25	0.026	.0082092 .1257367
AUDES	.006215	.0071233	0.87	0.385	-.0078737 .0203037
BEQUL	.0788633	.0128261	6.15	0.000	.0534956 .104231
BMF	.0032438	.0009796	3.31	0.001	.0013064 .0051813
_cons	-.0574417	.0186861	-3.07	0.003	-.0943995 -.0204839
sigma_u	.00124298				
sigma_e	.01363794				
rho	.00823835	(fraction of variance due to u_i)			

F test that all u_i=0: F(4, 134) = 0.24 Prob > F = 0.9164

Random effect model regression result (ROE)

. xtreg ROE BSZ BGD IOWN AUDES BEQUL BMF, re

```

Random-effects GLS regression           Number of obs   =       145
Group variable: Year                   Number of groups =         5

R-sq:  within = 0.5540                 Obs per group:  min =        29
      between = 0.8547                   avg =       29.0
      overall  = 0.5625                   max =        29

                                           Wald chi2(6)     =       177.45
corr(u_i, X) = 0 (assumed)             Prob > chi2      =        0.0000
  
```

ROE	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
BSZ	-.0004748	.0033521	-0.14	0.887	-.0070449 .0060952	
BGD	.093038	.0313029	2.97	0.003	.0316855 .1543905	
IOWN	.0473879	.0714337	0.66	0.507	-.0926196 .1873954	
AUDES	.023079	.0170616	1.35	0.176	-.0103611 .0565191	
BEQUL	.0822323	.030686	2.68	0.007	.0220889 .1423758	
BMF	.0140513	.0023361	6.01	0.000	.0094726 .01863	
_cons	-.1551984	.044887	-3.46	0.001	-.2431753 -.0672215	
sigma_u	0					
sigma_e	.03292281					
rho	0	(fraction of variance due to u_i)				

Fixed effect model regression result (ROE)

. xtreg ROE BSZ BGD IOWN AUDES BEQUL BMF, fe

```

Fixed-effects (within) regression      Number of obs   =       145
Group variable: Year                  Number of groups =         5

R-sq:  within  = 0.5542                Obs per group:  min =        29
        between = 0.8465                avg   =       29.0
        overall = 0.5623                max   =        29

                                         F(6,134)       =       27.76
corr(u_i, Xb) = 0.1101                 Prob > F       =       0.0000
  
```

ROE	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
BSZ	-.0007569	.0033603	-0.23	0.822	-.0074031 .0058892	
BGD	.0953679	.03141	3.04	0.003	.0332443 .1574915	
IOWN	.0518702	.0717249	0.72	0.471	-.0899891 .1937295	
AUDES	.0262953	.0171962	1.53	0.129	-.0077157 .0603063	
BEQUL	.0809415	.0309629	2.61	0.010	.0197023 .1421807	
BMF	.0133982	.0023648	5.67	0.000	.0087211 .0180754	
_cons	-.1539678	.0451093	-3.41	0.001	-.2431861 -.0647495	
sigma_u	.00602694					
sigma_e	.03292281					
rho	.03242531	(fraction of variance due to u_i)				

F test that all u_i=0: F(4, 134) = 0.94 Prob > F = 0.4401

Appendix III: list of sample commercial banks and insurances

1. Awash bank
2. Nib bank
3. Addis international bank
4. Enat bank
5. Lion bank
6. Oromiya bank
7. United bank
8. Wegagen bank
9. Zemen bank
10. Dashen bank
11. Abay bank
12. Abyssiniya bank
13. Berhan bank
14. Bunna Bank
15. Coprative bank
16. Debub global bank
17. Nib insurance
18. Birhan insurance
19. Africa insurance
20. Ethiolife insurance
21. Awash insurance
22. Lucy insurance
23. Nyala insurance
24. Tsehay insurance
25. Abay insurance
26. Oromiya insurance
27. Bunna insurance
28. United insurance
29. Nile insurance