



Addis Ababa University

School of Commerce

**Application of Corporate Governance Principles and Challenges: The case of
Bunna International Bank S.C.**

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**A project submitted to Addis Ababa University School of Commerce in
Partial Fulfillment of the Requirement of the Award of Masters of Art Degree
in Business Leadership.**

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STATEMENT OF DECLARATION

I, the undersigned, declare that this project work entitled “Application of Corporate Governance Principles and Challenges in the case of Bunna International Bank S.C” is the outcome of my own effort and study in which 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 my Advisor Webshet Bekalu (Phd).

I further confirm, this project paper is my own work that has not been submitted for any degree or diploma program in this or any other institutions.

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Statement of Certification

This is to certify that the project work entitled, “Application of Corporate Governance Principles and Challenges: the case of Bunna International Bank S.C”, undertaken by Melesse Leykun for the partial fulfilment of degree of Master of Business Leadership . To the best of my knowledge, this project paper is an original work and not submitted earlier for any degree either at this University or any other University.

Advisor: Webshet Bekalu (Phd)

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ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF COMMERCE

**APPLICATION OF CORPORATE GOVERNANCE
PRINCIPLES AND CHALLENGES: THE CASE OF
BUNNA INTERNATIONAL BANK S.C**

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ABBREVIATION AND ACRONYMS

OECD - Organization for Economic Cooperation and Development

BOD - Board of Directors

CEO - Chief Executive Officer

NBE - National Bank of Ethiopia

NED - Non-Executive Directors

SPSS - Statistical Package for Social Science Studie

Abstract

Corporate governance is essentially of greater importance to uphold the sustainable growth and strongly operate in the competitive and regulatory landscape of banking business. The study examined corporate governance practices and its challenges under the domain of Bunna International Bank S.C. Descriptive research design was employed to conduct the case study. The population was thought to be Chiefs, Directors, District Managers, Division Managers and Senior Branch Managers currently working at Bunna Bank Head office and three district offices at Addis Ababa namely; South, West, and East. Structured and closed ended questionnaire were administered to collect data from the participants. Moreover, the collected data was analyzed using SPSS version 25 and results were presented in the form of frequencies, percentages and tabulation. Generally, the findings reveals that applicability of corporate governance at Bunna bank are commendable in most aspects. Nonetheless, areas such that raising employees awareness towards corporate governance, lack of clear and enforcement mechanisms, conflict of interest, misuse of authorities, reluctance to take responsibility, and lack of synergy between board and management are identified as the prevalence challenges. Subsequently, possible recommendations are suggested which includes, the board should set “the top at the tone” and play a lead role in establishing the banks corporate culture and values, A bank’s code of conduct or code of ethics, or comparable policy, should define acceptable and unacceptable behaviors, and establish a system that work on employee awareness regarding good corporate governance.

Key words: Corporate Governance, Corporate Governance Culture, Conflicts of interest, Corporate governance practices, corporate governance principles, Corporate Governance Challenges.

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CHAPTER ONE

1. INTRODUCTION

1.1 Back Ground of the Study

In recognition of the need for corporate governance, the Organisation for Economic Co-operation and Development (OECD) came up with the principles of corporate governance in 1999 and have since being an international bench mark for a sound corporate governance framework and offer practical guidance for implementation at a national level.

Responsibility, accountability, transparency and fairness are pillars and the basic elements of corporate governance principles. These Principles of Corporate Governance help policy makers evaluate and improve the legal, regulatory, and institutional framework for corporate governance, with a view to supporting economic efficiency, sustainable growth and financial stability OECD (2015).

According to BCBS (2015), effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. Banks perform a crucial role in the economy by intermediating funds from savers and depositors to activities that support enterprise and help drive economic growth. Banks' safety and soundness are key to financial stability, and the manner in which they conduct their business, therefore, is central to economic health. Governance weaknesses at banks that play a significant role in the financial system can result in the transmission of problems across the banking sector and the economy as a whole.

Nevertheless, Banks essentially involve the allocation of resources. They can be thought as the mind of the entire economic system, the central locus of decision-making: if they fail, not

only will the sector's profits be lower than they would otherwise have been, but the performance of the entire economic system may be impaired (Fidonski F,et.al, 2014).

Recently concerns about corporate governance has been evolved as a result of scandals and reports on abusive and criminal acts by owners and the management of the company is growing. In order to protect stakeholders and enable sound corporate governance practices, Organization for Economic Co-operation and Development (OECD), International Monetary Fund (IMF), and World Bank (WB) has issued multiple corporate governance principles and standards to help the government and regulatory bodies.

Similarly, the Basel Committee on Banking Supervision (BCBS) published a guidance in 1999, which drew from OECD's principles of corporate governance to assist member countries in their attempt to evaluate the wellness of the corporation under their supervision, extract and develop the relevant and sound corporate governance framework.

Subsequently, The National Bank of Ethiopia, via directive no SBB/071/2019, defined Corporate Governance of Banking business as follows: Corporate governance means the process and structure used to direct and manage the business and affairs of a Bank towards enhancing business prosperity and corporate accountability with ultimate objectives of realizing long term shareholders value and other stake holders' interest.

The roles Banks play in facilitating other businesses activities are very significant and as important as any other economic infrastructure. Consequently, instability in the financial sector has extremely detrimental effect to the overall economy of a given country, the public and the

government. Thus, ensuring corporate governance practices in the sector will enhance confidences of shareholders and other stakeholders to commit substantial resources.

As Mocanu (2018) argues that, corporations, like all citizens, must act within the law. The penalties for serious violations of law can be extremely severe, even life threatening, for corporations. Compliance is not only appropriate it is essential. The board and management should be comfortable that the company has a robust legal compliance program that is effective in deterring and preventing misconduct and encouraging the reporting of potential compliance issues.

Hence, the Purpose of this project is to examine the application of corporate governance principles and challenges there on at Bunna International Bank S.C in light of OECD's Corporate Governance Principles, Basel Banking Supervision Committee (Basel Committee) guidance and the National Bank of Ethiopia corporate governance directive no SBB/071/2019

1.2. Background of the Organization

Bunna International Bank S.C. has joined the Banking industry of Ethiopia following the favorable economic developments witnessed in the country during the last decade and the incessantly growing needs for Financial Services. The bank has obtained its license from the National Bank of Ethiopia (NBE) on June 25, 2009 in accordance with Licensing & Supervision of Banking Business Proclamation No. 592/2008 and the 1960's Commercial Code of Ethiopia. The Bank officially commenced its operation on October 10, 2009 with subscribed & paid up capital of 308 Million Birr and 156 Million Birr, respectively. Moreover, the Bank has more than 12,500 shareholders, which makes it one of the strongest and public based private Banks in

Ethiopia. Currently, the paid up capital has increased to over 2.56 billion birr and the number of shareholders has increased to over 14,000.

1.3 Statement of the Problem

Fortune, a weekly business newspaper on its Volume 22, Number 1102 Sunday June 13, 2021 edition, headlined a news about Debub Global Bank Executives who has been fined almost one millio dollars for the mismaagegmet of letters of credit.

According to the news paper, Debub Global is not the first Bak to find itself, in midst of a predicament due to controversies over letter of credit malpractice since Coopeatve Bank of Oromia's executives were suspended six years ago with the same reason. By the same token the National Bank of ethiopia has also suspended the distribution of divindend to shareholders as it has yet to investigate the healthiness of the reported profit for the fiscal year ended June 30, 2020. This is an indicator of poor corporate governance in the afformentioned Banks.

Contextually, the board who has a central role in providing leadership, set strategic objectives into effect and supervise the management of the bank against the governance standard of the company, is equally responsible for the mismanagement of the most scarce resource in the country. At the same time, the incident is contrary to OECD's corporate governance principle VI which is "Responsibilities of the board". The principle under sub article A specifies that "Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholder." Furthermore, the board is not only accountable to the company and its shareholders but also has a duty to act in their best interests.

Although the supervisory reacted after the fact damaged the well being of the bankig industry, it can be used as a lesson for all commercial banks operating in the country because

governance weaknesses at banks that play a significant role in the financial system can result in the transmission of problems across the banking sector and the economy as a whole.

In fact, all banks operating in Ethiopia are required by NBE to ensure the implementation of corporate governance principles at their rank. Nevertheless, having a robust corporate governance policy may not guarantee the companies business is safe from severe risks unless there is rigorous and diligent oversight of a banks affairs by the board of directors.

The company selected to conduct this case study, Bunna International Bank S.C is a private commercial Bank operating in the Ethiopia for the past 12 years after having a license from National Bank of Ethiopia to engage in the Banking business. As in all similar cases, adherence to the National Bank of Ethiopia's corporate governance directives is not only appropriate but essential for the existence of the Bank. In addition, non compliance in any form would expose the bank to substantial administrative and disciplinary measures.

As mentioned earlier, the bank is expected to have its own corporate governance policies extracted from the national bank of ethiopia's directive no SBB/71/2019 as clearly specified on the document as corporate governance plays a vital role in maintaing the safety and soundness of financial system in general and banking sector in particular.

From legal perspectives, compliance to rules, regulations, policies, and shareholders deliberations requires a culture and competences. Besides, as information is somehow asymmetric to the regulatory office and the shareholders; integrities expected from the board of directors, senior management and auditors very crucial for application of sound corporate governance.

Accordingly, implementation of relevant corporate governance emanated from the four pillars of corporate governance principles such that responsibility, accountability, transparency and fairness might be difficult and challenging to achieve in its totality. However, compromises in this regard would have a detrimental effect financially and may result in closure of the business at the worst scenario. Needless to say, effective corporate governance requires dedicated focus on the part of directors, the CEO and senior management to their own responsibilities and, together with the shareholders, the company has a robust legal compliance program that is effective in deterring and preventing misconduct and encouraging the reporting of potential compliance issues.

Thus, the researcher, alarmed by the news posted on the aforementioned newspaper and numerous mal practices disclosed via audit findings in various operational areas motivated to investigate how corporate governance principles are being practiced at Bunna International Bank and try to identify the prevailing challenges to prudently implement the concepts of the evolved principles in comparison with the National Bank of Ethiopia's Corporate Governance Directives. The study aims to get answers for the underlisted questions:

- ❖ Does the Bank operate within the corporate governance frameworks that are enforced by the National Bank of Ethiopia for the full protection of stakeholders.
- ❖ Does applicable corporate governance principles included in the Bank's corporate governance policy?
- ❖ To what extent do large shareholders influence corporate governance practices.
- ❖ What are the prevailing challenges of corporate governance at Bunna International Bank S.C?

1.4 Objective of the study

1.4.1 General Objective of the study

The main objective of this study is to examine how corporate governance principles are being applied at Bunna International Bank S.C in reference with National Bank of Ethiopia (NBE's) corporate governance directive and BCBS (The Basel Committee) recommendations for banking supervision.

1.4.2 Special Objective of the study

The specific objective of this project work includes the following.

- ❖ To examine whether the bank is operating with in a legal frame work which is in congruent with NBE's corporate governance directive no SBB/71/2019
- ❖ To analyze applicable corporate governance principles are included in corporate governance policy of the Bank
- ❖ To substantiate the extent to which influential shareholders are affecting corporate governance practices
- ❖ To assess and identify what are the percieved challenges to prudently practice corporate governance principles at Bunna International Bank S.C
- ❖ Last but not the least, based on the findings of this project work provide recommendations to respective body of the bank regarding areas where improvements are required for better performance of the bank.

1.5 Significance of the study

The focus of this project will be on the application of corporate governance principles in case of Bunna International Bank S.C. Notwithstanding, depending on the outcomes of the survey regarding the status of corporate governance practices in the bank, the study try to show the instance of the shortcomings that deter the performance of the Bank. Besides, the study aims to make recommendations that may improve the welfare of the shareholders and balance the interests of every stakeholder such as shareholders, the board, senior management executives, customers, suppliers, the government, and the community. Furthermore, with reference to NBE's

directive and BCBS guidelines against the practice of corporate governance principles in the bank, the study may provide helpful recommendations that support to take corrective measures where there is an identified drawback.

1.6 The Scope of the study

This project work is aimed to assess the applicability of corporate governance principles & practices at the frame and experience of Bunna International Bank S.C. The researcher selected Bunna Bank to conduct the study is because it is one of the private commercial Banks operating in Ethiopia. The Bank can benefit from practicing good corporate governance and boost the shareholders confidence as a result of best achievement. Besides, failure to have a standard corporate governance practice relevant with the nature of its operational activities would expose the bank to risks that can be mitigated otherwise. Hence, identifying the status of the Bank in this regard and the hindering challenges to fully practice the principles can be used as an input for further studies.

The outcomes of the findings are going to be communicated for the concerned body/management of the Bank. Moreover, the study only uses as primary data the information obtained from target groups whom had a relation with Bunna International Bank S.C. Thus, the recommendation made on this information may not be conclusive.

1.7 Limitation of the study

Though the concept of corporate governance is as old as the inception of corporations, getting documents in the subject in the context of Ethiopian business practices are rare. In addition, researches conducted in the sector so far are very limited particularly in the banking industry. Thus, the basis for analyzing the applicability of corporate governance practices is limited to National Bank of Ethiopia's corporate governance directive.

1.8 Organization of the Project Paper

The research work consists of five chapters and organized as follows: The first chapter contains introduction of the study, statement of the problem, general and specific objectives of the study, significance of the study, scope and limitation of the study. The second chapter deals with detailed review of various literatures while the third chapter goes for research methodology.

Chapter four focuses on Results and discussion Data presentation, analysis & appropriate interpretation of the study findings. The last chapter that is chapter five deals with the summary, conclusion and recommendation of the project work.

CHAPTER TWO

2. LITERATURE REVIEW

The chapter provides the review of literatures on corporate governance in the context of Banking Industry. It highlights the different perceptive and elements with relevant theories of corporate governance.

2.1. Definitions of Corporate Governance

Quite recently, awareness about good corporate governance by the public and companies remarkably increased. The 2007 economic crisis as well as the collapse of large multinational corporations due to reported scandals at the beginning of the new millennium has played its part.

The definition of Corporate Governance may vary depending on the context of the business, the country where the business is operating, interests of stakeholders, compliance issues and the sensitivity of the analyst. In addition, it is very difficult to get universally accepted definitions because there is a difficult culture in different countries. However, there is uniformity in the definitions by different scholars since there is a genuine attempt in promoting the good practice to eradicate mis-governance. Most scholars agree that flawed culture and inadequate governance cause a massive destruction on shareholders' value. Contrary to this, good corporate governance practices play a vital role in improving the performance of corporations and increase shareholders' value.

As noted by Fernando (2009), Corporate governance means doing everything better to improve relations between companies and their shareholders; to improve the quality of outside directors; to encourage people to think of long term relations; information needs of all stakeholders are met and to ensure that executive management is monitored properly in the interest of shareholders.

On the other hand OECD (2015) have defined corporate governance as the system which business corporations are directed and controlled. According to them, corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the

objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. (Steger & Amann, 2008)

Daniel Meidl (2014) defines corporate governance as a system that tries to balance the interests of the management, the investors, and all other stakeholders. He emphasizes that good corporate governance is an indicator of high confidence of the investors in the management.

2.2 G20/OECD Principles of Corporate Governance

The G20/OECD Principles of corporate governance (OECD 2015) are widely used as a benchmark by individual jurisdictions around the world. They are also one of the Financial Stability Board's Key Standards for Sound Financial Systems and provide the basis for assessment of the corporate governance component of the Reports on the Observance of Standards and Codes of the World Bank. The acclaimed principles are classified in six chapters and detailed analysis has been provided. For this paper, only the principles are quoted and cited as follows;

Principle One: Ensuring the basis for an effective corporate governance framework; refers to “The corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement.”

Policy makers should remain focussed on ultimate economic outcomes and when considering policy options, they will need to undertake an analysis of the impact on key variables that affect the functioning of markets, for example in terms of incentive structures, the efficiency of self-regulatory systems and dealing with systemic conflicts of interest. Transparent and well-functioning markets serve to discipline market participants and to promote accountability.

Supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfil their duties in a professional and objective manner. Moreover, their rulings should be timely, transparent and fully explained.

Principle Two: The rights and equitable treatment of shareholders and key ownership functions; “The corporate governance framework should protect and facilitate the exercise of shareholders’ rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.”

As a practical matter, however, the corporation cannot be managed by shareholder referendum. The shareholding body is made up of individuals and institutions whose interests, goals, investment horizons and capabilities vary. Moreover, the corporation’s management must be able to take business decisions rapidly. In light of these realities, the responsibility for corporate strategy and operations is typically placed in the hands of the board and a management team that is selected, motivated and, when necessary, replaced by the board.

Basic shareholder rights should include the right to: 1) secure methods of ownership registration; 2) convey or transfer shares; 3) obtain relevant and material information on the corporation on a timely and regular basis; 4) participate and vote in general shareholder meetings; 5) elect and remove members of the board; and 6) share in the profits of the corporation.

Furthermore, the principle gives emphasis on protection of minority shareholders since there is a potential for abuse by influential/controlling shareholders. Thus, minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. Abusive self-dealing should be prohibited.

Principle Three: Institutional investors, stock markets, and other intermediaries; “The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.”

The effectiveness and credibility of the entire corporate governance framework and company oversight depend to a large extent on institutional investors' willingness and ability to make informed use of their shareholder rights and effectively exercise their ownership functions in companies in which they invest.

Principle Four: The role of stakeholders in corporate governance; ” The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.”

A key aspect of corporate governance is concerned with ensuring the flow of external capital to companies both in the form of equity and credit. The competitiveness and ultimate success of a corporation is the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors, customers and suppliers, and other stakeholders. Corporations should recognise that the contributions of stakeholders constitute a valuable resource for building competitive and profitable companies.

Principle Five: Disclosure and transparency;” The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. ”

The Principles support timely disclosure of all material developments that arise between regular reports. They also support simultaneous reporting of material or required information to all shareholders in order to ensure their equitable treatment. In maintaining close relations with investors and market participants, companies must be careful not to violate this fundamental principle of equitable treatment.

Information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board. It is important to disclose membership of other boards not only because it is an indication of experience and possible time pressures facing a member of the board, but also because it may reveal potential conflicts of interest and makes transparent the degree to which there are interlocking boards.

Moreover, Companies should report their corporate governance practices, and such disclosure should be mandated as part of the regular reporting. Companies should implement corporate governance principles set, or endorsed, by the regulatory or listing authority with mandatory reporting on a “comply or explain” or similar basis. Nevertheless, Companies should clearly disclose the different roles and responsibilities of the CEO and/or Chair and, where a single person combines both roles, the rationale for this arrangement. It is also good practice to disclose the articles of association, board charters and, where applicable, committee structures and charters.

Principle Six: The responsibilities of the board; “The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders”

Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. In order for boards to effectively fulfil their responsibilities they must be able to exercise objective and independent judgement.

The board should fulfil certain key functions including; Reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and

2.3 Definitions of Corporate governance in Banking Context

Banking industry is unique and different from other industries as they are critical component of any economy as they provide financial assistance for other economic sectors such as manufacturing, services, international trades and every commercial enterprise.

According to National Bank of Ethiopia directive no SBB/71/2019; corporate governance is defined as the process and structure used to direct and manage the business affairs of a Bank towards enhancing business prosperity and corporate accountability with ultimate objectives of realizing long term shareholders value as well as customer and other stakeholders interest. The

definition made by NBE has similarities with the definition given by OECD and various governance experts in the field.

When it comes to corporate governance definitions with related to banking business, BCBS (The Basel committee for Banking Supervision) laid sound principles and regulations, which adopted by all countries regardless of their economic status. Notwithstanding it acknowledges different national models and encourages interpretation should be made in accordance with applicable law with each jurisdictions.

Accordingly, Basel Committee on Banking Supervision (2015) define corporate governance as, a set of relationships between a company's management, its board, its shareholders and other stakeholders, which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance.

Furthermore, from the compliance point of view, the corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. (The OECD corporate governance guidelines)

The issue of corporate governance has a great deal of attention from lawyers and economists. In Particular, the OECD has issued various corporate governance standards and guidelines to help governments in their efforts to evaluate corporate performances. Besides, the OECD provides guidance and suggestions for investors and corporations, and other parties that have a role in the process of developing good corporate governance (Fernando 2009).

From a banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which affects how, they: Set corporate objectives; Operate the banks business on a day-to-day basis; Meet the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders Align corporate activities and behavior with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations; and Protect the interests of depositors (BCBS 2006).

Banks attract citizens' savings in the form of deposits, offer means of payment for goods and services and finance the development of businesses. Banks are subject of stricter regulations in comparison with other entities, because they are responsible for protecting the rights of the depositors, ensuring the stability of the payment system and reducing systemic risk. Moreover, the activity in the banking industry is characterized by the complexity of the operations, which increases information asymmetry and diminishes the stakeholders' capacity to monitor the decisions of bank managers. These aspects lead to the fact that corporate governance of banking institutions has certain characteristic features (Mocanu, M, 2010).

In recent years, the banking industry is facing increased competition to improve its services, forced by technological changes and deregulations. As consequent of the increasing focus in the banking arena, the emphasis has been given on the improvement of the efficiency of the banking industry (Rashid et al. 2002).

As per proclamation, no 592/2008, which may be, cited as a proclamation for providing banking business in Ethiopia, "banking business," means any business that consists of the following activities:

- a) Receiving funds from the public through means that the National Bank has declared to be an authorized manner of receiving funds;
- b) Using the funds referred to under paragraph (a) of this sub-article, in completely or in part, for the account and at the risk of the person undertaking banking business, for loans or investments in a manner acceptable by the National Bank;
- c) The buying and selling of gold and silver bullion and foreign exchange;
- d) The transfer of funds to other local and foreign persons on behalf of the banks themselves or their customers;
- e) The discounting and negotiation of promissory notes, drafts, bills of exchange and other evidence of debt;

f) Any other activity recognized as customary banking business, which a bank engaged in the activities described from paragraph (a) to (e) of this sub-article may be authorized to undertake by the National Bank;

Accordingly, National Bank of Ethiopia on its part emphasizes the importance of corporate governance for banks and has issued directive no SBB/71/2019 in accordance with proclamation No 592/2008 and further explained as “corporate governance plays a vital role in maintaining the safety and soundness of financial system in general and Banking sector in particular. Corporate governance gives way to balanced risk taking and enhances business prudence, prosperity, and corporate accountability with ultimate objective of realizing long term shareholders’ value as well as customers’ and stakeholders’ interest”.

According to (Fidanoski, et al, 2013), Corporate Governance in the banking system has assumed keen importance and has become an issue of global concern because it is required to lead to enhanced services and deepening of financial intermediation on the part of the banks and enables proper management of the operations of banks.

2.4 Concepts and Theoretical Basis of Corporate Governance

Corporate governance, as a concept, can be viewed from two perspectives: the narrow view and the broad perspective. The narrow view perceives corporate governance in terms of issues relating to shareholder protection, management control and the popular principal-agency problems of economic theory. The broad perspective is regarded as being the heart of both a market economy and a democratic society (Isaac Lambe, 2014).

Concerning the theoretical basis of corporate governance, economists identify four broad theories and these are; Agency theory, Stewardship theory, Stakeholder theory, Sociological theory.

2.4.1 Agency Theory

The fundamental theoretical basis of corporate governance is agency cost. Shareholders are the owners of the company and by virtue of their ownership define the objectives of the company. Accordingly, the management directly or indirectly selected and employed by the principals to pursue those objectives is agents. In many instances, the objectives of the management vary from the principal and such mismatch of the objective is called the agency

problem; the cost inflicted as a result is agency cost. Thus, the core of corporate governance is designing and putting in place disclosures, monitoring, “oversight” and corrective systems that can align the objectives of the two sets of players as closely as possible and hence, minimize agency costs (Fernando, 2009).

In agency theory terms, the owners are principals, the managers are agents, and there will be agency loss, which is the extent to which returns to the residual claimants, the owners fall below what they would be if the principals themselves exercised direct control of the corporation (Ibid 2009).

Michael C. Jensen and William H. Meckling (1976) defined an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf that involves delegating some decision-making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities, of the agent.

Likewise, according to (Justine Simpson and John Taylor, 2013) the managers or directors are agents for investors or shareholders; known as principals. The management is entrusted with the principals money and their expected role is, to use that investment to create profits that the principals could receive by way of dividend, to expand that initial capital on behalf of the principals, so increasing the value of their investment, to preserve the assets of the business; to act always in the best interests of their principals.

The same Authors discussed agency cost as; costs arise because agents and principals may have differing objectives, which have to be aligned to some degree; and the agents have vastly more information in their control than do principals.

2.4.2 Stewardship theory

The stewardship theory assumes that managers are trustworthy and attach significant value to their own personal reputations. The theory defines the situations in which managers are stewards whose motives are aligned with the objectives their principles. A steward’s behavior will not depart from the interests of his or her organization. The responsibility of the board to

shareholders in terms of stewardship and trusteeship cannot be overemphasized. However, the greatest barrier to the adoption of stewardship mechanisms of governance lies in the risk propensity of principals. Risk taking owners will assume that the executives are pro-organizations and favor stewardship governance mechanisms. (Fernando, 2009)

2.4.3 Stakeholder theory

The theory is grounded in many normative theoretical perspectives including ethics of care, the ethics of fiduciary relationships, social contract theory, theory of property rights, theory of stakeholders as investors, communitarian ethics, critical theory, etc. Stakeholder theory upholds responsibility to non shareholder groups and it tend to be in contrast with the Anglo-American model of corporate governance, which generally emphasizes the primacy of fiduciary obligations owed to shareholders over any stakeholder claims. Nonetheless, corporations criticize the stakeholder theory as being inapplicable in practice. (Fernando, 2009)

On the other hand, Freeman (2001) argues that, an apparent paradox that accompanies the stakeholder approach. Management appears to have a contractual duty to manage the firm in the interests of the stockholders and at the same time, management seems to have a moral duty to consider other stakeholders.

2.5 Why Corporate Governance in Banks

Banks are companies formed by sale of shares to investors and everyone who holds these share supposed to be the owner of the respective corporation in this case Bank. Banks exist because they are willing to take on and manage risks. Banking business is becoming very complex and diversified. As discussed earlier, even in the regulated setup like Ethiopia, some private Banks has incurred losses. Meanwhile, NBE has reprimanded executives of Debu Global Bank as a result of their mismanagement of letter of credit, as their activities are found to compromise the financial health of the Bank and tarnish its reputation. (**Fortune Newspaper, Volume 22 NO 1102, Sunday, June 13, 2021.**)

Corporate Governance in banks have a paramount importance with regard to protecting the interest of depositors, for the following reasons as outlined by Fernando (2009);

- 🏦 The depositors collective entrust a very large sum of their hard-earned money to the care of Banks.

✚ The depositors are very large in number, are scattered, and have little say in the administration of Banks.

To conclude, the objective of corporate governance in Banks should first be protection of depositors' interests and then to be optimize the shareholders' interests. The remaining other consideration would fall in place once these two priorities are achieved.

Furthermore, as Fernando (2009) noted that Companies need to be governed as well as managed. Although there is no uniform scope or content of corporate governance, centrality of the board of directors in the structure and process are fundamental. Therefore, the boards' relationship with shareholders, regulators, auditors and other legitimate stakeholders are identical.

2.6 Composition of Boards

The existence of diversity in the boardroom helps the bank or a company to acquire specialized skills, knowledge and expertise while forming the sub committees.

Selection of board members reveals further dimensions of power within the board in relation to who hires executive and non-executive directors and how the board is likely to be run. Issues of personal loyalty within the board and degree of independence loom large in this context. Understanding board members' turnover and selection is therefore crucial in gaining a sound understanding of how boards function, the extent to which they are effectively governed, and the shifts in power dynamics within the board (Keasey et.al 2005)

According to Price water house coopers (2006) recommendations, the Board should be of the correct size and have the best mix of skills to ensure its optimum effectiveness. There should be a clear distinction between the roles of the Chairman and the CEO. It is advisable that the majority of the Board is independent of the organization. There should be a formal and transparent nomination process for Board committees. Board committees should fulfill their assigned roles and report to the Board. Board members should demonstrate good judgment, credibility, strategic thinking, industry knowledge, intuition, communication skills and decision-making ability.

2.7 Board Committees

The authority of the board to appoint board committees is subject to the company's Memorandum of Incorporation. If the company's Memorandum of Incorporation, or a board resolution establishing a committee, does not provide otherwise, the committee may include persons who are not directors of the company. However, it should be noted that where non-directors are appointed to a board committee, such persons are not allowed to vote on a matter to be decided by the committee (Deloitte & Touché, 2014).

Board committees provide specialized analysis and advices on particular areas within the board's scope of responsibility, usually reporting to the full board for further action. Common board committees include:

The Nomination Committee : The role of the nomination committee is to review, on a regular basis, the composition of the full board, and where it appears that the board is lacking in skills or experience in a certain area, to identify how best to rectify the situation. This may involve identifying skills that are required, and those individuals' best suited to bring these to the board.(King III, Act 71 of 2008)

The Remuneration Committee: The role of the remuneration committee is responsible to make recommendations on executives and director fees, benefits and permissible expense claims. (King III, 2008) suggests that the remuneration committee is very sensitive and topical issues facing the board of directors. The members of the committee are required to maintain a fine balance between recommending over-generous remuneration that is not in the interests of the shareholders, and a level of remuneration that fails to attract the desired quality of individual to the board.

The Risk Committee: The role of the committee is to perform an oversight function. In doing so, it should consider the risk policy and plan, determine the company's risk appetite and risk tolerance ensure that risk assessments are performed regularly, monitor the whole risk management process, and receive assurance from internal and external assurance providers regarding the effectiveness of the risk management process. In turn, management is responsible for the design, implementation and effectiveness of risk management, as well as continual risk monitoring.(Ibid 2008)

The Audit Committee: The audit committee will bear sole responsibility for its decisions pertaining to the appointment, fees and terms of engagement of the auditor. On all other matters, it remains accountable to the board and, as such, it will function as a board committee. Furthermore, the audit committee is now obliged to also report to shareholders. The audit committee will report to shareholders by including in the annual financial statements the audit committee's report describing how the committee carried out its functions, stating whether the auditor was independent, and commenting on the financial statements, accounting practices and internal financial control measures of the company.

Social and Ethics Committee : Regardless of the appointment of social and ethics committee, every board member is expected to act in accordance with acceptable standard or conduct. However, when appointed the committee is responsible for ensuring that management has allocated adequate resources to comply with social and ethics policies, codes of best practice and regulatory requirement.

2.8 The Disclosure and Transparency of Corporate Governance

OECD (2015) elucidated that corporate governance framework should ensure that timely and accurate disclosure is made on all material matters pertaining to the company. This includes the financial situation, performance, ownership, and governance of the company. In addition, the OECD lays down a number of provisions for the disclosure and communication of key facts about the company ranging from financial details to governance structures including the board of directors and their remuneration.

As per the National Bank of directive no SBB/71/2019 article no 12 where “disclosure” is explained; Board and senior management of a bank shall be transparent to any shareholder, depositor, and any other relevant stakeholders without breaching the law of the country and the National bank directives.

2.9 Rights of Shareholders

OECD (2015) discussed that Shareholders' rights to influence the corporation centre on certain fundamental issues, such as the election of board members, or other means of influencing the composition of the board, amendments to the company's organic documents, approval of

extraordinary transactions, and other basic issues as specified in company law and internal company statutes.

OECD (2015) specified the following as the basic shareholder rights this including the right to secure method of ownership registration, convey or transfer share, obtained relevant and material information on the corporation on a timely and regular basis. Then participate and vote in general shareholder meeting, elect and removed members of the board, and share in the profit of the corporation. In addition, shareholders should have the right to participate in, and to be sufficiently informed on decision concerning fundamental corporation changes, for example, amendments to status or articles of incorporation, the authorization of additional share and extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the company.

Furthermore Additional rights such as the approval or election of auditors, direct nomination of board members, the ability to pledge shares, the approval of distributions of profits, shareholder ability to vote on board member and/or key executive compensation, approval of material related party transactions and others have also been established in various jurisdictions. (OECD 2015)

2.10 Responsibilities of Shareholders

While a shareholder may be happy to note that one has so many rights as a stakeholder in the company; it should not lead one to complacency because one also has responsibilities to discharge, such as to remain informed, to be vigilant, to participate and vote in general meetings, to exercise one's rights on one's own, or as a group (Fernando 2009).

2.11 The Role of Board in Ensuring Corporate Governance

Boards of Directors are top administrative body of the corporation. They are elected by shareholders to manage the affairs of the company in accordance with the laid down policy, law, regulations, procedures, directives, etc.

2.11.1 Duties and responsibilities of Directors

Directors have certain duties to discharge. These include: i) fiduciary duties (ii) duty of care, skill and diligence; (iii) duties to attend board meetings; (iv) duties not to delegate their

functions except to the extent authorized by the act or constitution of a company and to disclose his interest. Factors such as the type and nature of work, the division of powers between directors and other executives, general usages, customs and conventions in the line of business and whether directors work gratuitously or for a remuneration will have an impact on the standards of care and diligence expected of the directors (Fernando, 2009).

2.11.2 Effectiveness of the Board of Directors

The board is legally is recognized legally as the top layer of management with the responsibility of governing the enterprise, yet, in actual practice, the board of directors delegates most of its managerial power to chief executives say, the managing director or manager.

The realistic functions of the board may, therefore: confirming management decisions on major changes in objectives, policies, and those transactions, which will have a substantial effect on the success of a company; providing constructive advice to the executives through discussion on important matters such as business outlook, new government legislation, wage policy, etc. with a view to guiding executives when the policies are still in the process of formation; selecting chief executives and confirming the selection of other executives in the company made by chief executives, reviewing the results of the company's current operations (Ibid)

2.11.3 The Role of Directors

The board should for better governance to ensure: directors should exhibit total commitment to the company; directors should steer discussions properly; directors should make clear their stand on issues; directors' responsibility to ensure efficient CEOs; challenges posed by decisions on acquisitions; a board should anticipate business events; and directors should have long-term focus and shareholder interests.

OECD (2015) explained that board should be involved in reviewing and guiding corporate strategy such as major plan of action, risk policy, setting performance objective, and annual budget with business plan. Others include monitoring implementation, corporate performance, overseeing major capital expenditure and acquisition and divestitures.

The National Bank of Ethiopia, under directive no SBB/71/2019, article no 10.4 stated multiples of duties and responsibilities expected from board members apart from observing

applicable laws, regulations, national bank of Ethiopia's directives, article and memorandum of association, as well as resolutions of shareholders.

The most common responsibilities are; developing and submitting transparent rules and procedures relevant with National Bank directives to ordinary general meetings for approval; appointing directors from the waiting list as per their voting rank; proposing external auditors and their respective service fee; selecting and appointing chief executive officers, chief internal audit and chief risk management/compliance or removing the same where they fail to fit and be proper; appointing senior executive officer selected by chief executive officer; establishing and ensuring the effective functioning of various board committees.

2.11.4 Executive Compensation

Board members have a responsibility to pay attention to issues of executive compensations. Consequently, OECD (2015) explained that the board should have sufficient numbers of non-executive directors capable of exercising independent judgment on key responsibility such as payment of executive compensation.

Keasey K et.al (2005) suggests that recent work in the area of executive remuneration from a governance perspective suggests that the field will continue to be active in the future, and there is still so much about executive pay that is unproven and not fully understood. Among the more interesting contemporary themes is the analysis of the risk characteristics and implications of alternative payment regimes. Certainly, some evidence of sensitivity between total share return and executive rewards has been found, but this sensitivity only explains a small proportion of total pay variance. Recent innovations like LTIPs, designed to increase this sensitivity, do not seem to have made a spectacular improvement, and firm size remains a more significant influence on Corporate Governance executive pay, arguably supporting further tightening up of the regulation of executive pay.

2.11.5 Responsibilities of Chief Executive officers

The National Bank of Ethiopia laid down multiples of responsibilities duties the Chief Executive Officer of a Bank shall responsible for via its directive no SBB/071/2019 article number 11 as follows:

- ✚ To develop corporate strategies, policies, business plan and budgets which are subject to approval by the board before its implementation
- ✚ Develop, approve, and implement procedure manuals, guidelines and controls to address compliance with laws and regulations applicable to the banks' environment and risk profile
- ✚ Ensure documents indicated under the above article are communicated to all concerned staffs
- ✚ Prepare organizational structure that clearly and appropriately assign duties, responsibilities, and authorities to ensure segregation of duties which shall be subject to board approval

2.12 Review of Previous Empirical Studies

This section of literature review concentrates on previous studies that have been conducted in relation to this study. Empirical studies have been conducted in the area of Corporate Governance regarding challenges in application of corporate governance principles mostly in comparison with organization performances. There are concerns from investors, government and regulatory offices in the areas of conflict of interests and mal-practices in the business environment. The important and most relevant empirical studies are summarized below in this section.

Alexander (2010) in his Article "Corporate governance and Banking Regulation" suggests that A major corporate governance challenge for banks involves the principal-agent problem and how it can undermine financial stability when the incentives of bank management and directors are not aligned with those of the owners of the firm. Furthermore, the author argues that it is the financial regulator's role to represent the public's interest in seeing that banks and financial firms are regulated efficiently to enhance the safety and soundness of the banking system and thereby increase economic growth. This paper suggests that bank regulation should

seek to balance the interests of shareholders with creditors, depositors, and other stakeholder interests in order to achieve the overall objective of financial stability.

Mocanu (2018) a Phd student at Bucharest University, studied corporate governance in Banking Industry, pointed out that Banks have loyalty problems regarding the behavior and attitude of their employees. Certainly, fraud and self-dealing transactions represent a risk in any large firm. However, such problems are especially acute in the banking industry, due to the large percentage of assets held by banks in a highly liquid form. In this context, such assets are for instance the clients' deposits, which can tempt a disloyal employee to transfer money from the client's accounts to an account known only by him and then to withdraw the amounts as if it were his.

The banking industry is also considered to be one of the most opaque industries in the economy. Levine (2004) states that "banks are generally more opaque than nonfinancial firms". He explains this attribute by the fact that most bank loans, unlike other products and services, are typically customized and privately negotiated. Similarly, Arun and Turner (2004) mention that depositors do not know the true value of a bank's loan portfolio, because this kind of information is incommunicable and also very costly to reveal. The lack of transparency of the banking industry is associated by De Andres and Vallelado (2008) with the complexity of this sector.

Another characteristic of the banking sector is that it is affected by the uneven distribution of information. Information asymmetries are present in all sectors, as Levine (2004) highlights, but these informational asymmetries are larger with banks. In banking, the quality of loans cannot be readily observed and can be hidden for a long period of time. Moreover, the risk composition of their assets can be altered more quickly in banks than in most non-financial

industries. As a solution for hiding problems, banks can extend loans to clients that cannot service previous debt obligations. The complexity of the banking business, discussed in previous paragraphs, aggravates the information asymmetries, in the opinion of De Andres and Vallelado (2008).

Macey and O'Hara (2003) mention the conflict between the interests of debt holders and the interests of shareholders, which is more acute in the banking context due to the high debt-to-equity ratio and the existence of deposit insurance.

De Andres and Vallelado (2008) argue that banks are subject to more intense regulation in comparison to other firms. A reason for the intense regulation is the fact that bank customers must be protected against dishonest business practices and bank creditors should be protected against asset loss. Regulation is therefore critical in the banking sector.

The study undertaken by Rehman (2012) entitled “does corporate governance influence bank performance?” concluded that there is an impact of corporate governance practices on the financial performance i.e., return on equity and return on assets. The most significant corporate governance variable in this respect is board size. The board size has a positive relationship with all bank's financial performance. It indicates that the size of a board does matter to increase the accounting return of the banks.

A study prepared by Grant (2009) entitled “The Corporate Governance lessons from Financial crisis”, concluded that the financial crisis can be to an important extent attributed to failures and weaknesses in corporate governance arrangements which did not serve their purpose to safeguard against excessive risk taking in a number of financial services companies. Accounting standards and regulatory requirements have also proved insufficient in some areas.

Last but not least, remuneration systems have in a number of cases not been closely related to the strategy and risk appetite of the company and its longer term interests. The article also suggests that the importance of qualified board oversight and robust risk management is not limited to financial institutions. The remuneration of boards and senior management also remains a highly controversial issue in many OECD countries. The current turmoil suggests a need for the OECD to re-examine the adequacy of its corporate governance principles in these key areas.

Husen (2012), in his article titled “Overview of Corporate Governance in Ethiopia: The role, composition and remuneration of boards of directors in share companies”, looks at the law of company in Ethiopia with reference to the powers, composition and remuneration of board of directors in light of Corporate Governance principles and best practices. Based on the study he concludes The board should have a core group of excellent, professionally qualified non-executive directors who understand their dual role of appreciating the issues put forward by management and honestly discharging their fiduciary responsibilities towards the company’s shareholders as well as creditors.

Pablo de Andres and Eleuterio Vallelado (2008), suggests that the banking business increases the asymmetry of information and diminishes stakeholders’ capacity to monitor bank managers’ decisions. They are also highly leveraged firms, due mainly to the deposits taken from customers. For all these reasons, banks are subject to more intense regulation than other firms, as they are responsible for safeguarding depositors’ rights, guaranteeing the stability of the payment system, and reducing systemic risk.

On the other hand the author further argues that, Regulation presents several challenges in the field of corporate governance. Even though regulation can be considered an additional

mechanism of corporate governance, in most situations it reduces the effectiveness of other mechanisms in coping with corporate governance problems.

The role of boards as a mechanism for corporate governance of banks takes on special relevance in a framework of limited competition, intense regulation, and higher informational asymmetries due to the complexity of the banking business. Thus, the board becomes a key mechanism to monitor managers' behavior and to advise them on strategy identification and implementation. Bank directors' specific knowledge of the complexity of the banking business enables them to monitor and advise managers efficiently.

In addition to the above reviewed empirical researches some other scholars are conducted their research on the area of corporate governance in Ethiopia. Of the few Master's thesis projects that are available on line and some are found in library and reviewed to the purpose of this study the researcher is observed the focused sectors of the litterateurs. Even though the financial sector has got attention from the government, most researchers sugested further regulation mechanisms should be implemented due to the unique nature of the banking firm which requires the legal protection of depositors equally as that of shareholders and multi variety characteristics of the sector.

CHAPTER THREE

3. METHODOLOGY

3.1. Research Design

The descriptive research design type was used for the study. Since the study focuses on examining the applicability of corporate governance principles at Bunna International Bank S.C, the descriptive research design was suitable to describe the practices in this regard. Furthermore, the descriptive research design is appropriate in addressing issues or subjects that are not well understood or when there are very little existing researches in the subject matter. Similarly, studies found with regard to application of corporate governance particularly conducted on Ethiopian private banks are very few. Notwithstanding to this, the aim of this paper is also limited to identifying the boundaries where the problem exists.

3.2. Sampling Design

Population: The population of this study consists of all executive management (Chiefs of the Bank, board secretary, Directors, Division managers and senior branch manager currently working at Bunna International Bank S.C working in Head Office and Addis Ababa Branches. The total population sizes will be 67; (i.e. 1 CEO, 5 Chief Officers, 1 board secretary, 16 directors, 3 district managers, 36 division managers and 5 senior branch managers were considered as a target population using census population method. They represent the core concentration points of the Banks' executive management since all types of management members can get a chance to be represented on the sample. The respondents span will be across the three major job levels of Executive management, Directors and middle management.

3.3 Sources of Data Collection

To collect the necessary data the study used both primary and secondary source of data. The primary data was collected from the target group through structured questionnaires. The questionnaires were closed-ended and Likert scale measurement was used to determine the level of agreement. As part of secondary data, publicly available information like annual report of the bank, commercial code of Ethiopia, proclamation and directive issued by the National Bank of

Ethiopia to regulate and supervise the bank's governance were used. Besides, various literatures related to the subject such as books, journals, articles, previous researches etc are exploited.

3.4 Research Instrument

Structured and close-ended Questionnaire used as an instrument for collection of Primary data. With regard to Secondary source of data, reviewed literatures of selected materials that are related to the subject under study (i.e. Corporate Governance), like reference book, magazines, Scholarly Articles, and so are deployed.

3.5 Method of Data Collection

The researcher personally distributed the questionnaire (Self-administered questionnaire) for and gathered himself accordingly since the target populations are mainly concentrated at Head Office.

3.6 Method of Data Analysis

In this project work, the research used descriptive statistics to describe results and analysis are represented in tables, frequencies and percentages, as it is sufficient to demonstrate the results. Likewise, with the quantitative data collected via the questionnaire, descriptive statistical analysis method is employed and Statistical Package for Social Scientists; SPSS version 25 is used to analyze the presented results in tabulations, frequencies and percentages.

3.7 Scale Reliability

Reliability refers to a research tool that is consistent, stable, predictable and accurate. If the scale is reliable, using the same instrument under the same conditions gives the same result. Accordingly, the data collection instrument that is a structured questionnaire in this case is duly considered for internal consistency or Reliability by the researcher. The method employed to test the reliability or the internal consistency of the instruments was Cronbach's Alpha. Subsequently, the overall Cronbach's alpha value was 0.845. As per the rule of George and Malley (2003), the result under "Good" category, which means the scale item used in the questionnaire are consistent enough and its reliability is confirmed.

3.8. Ethical Consideration

The right of every participant involved in the study project has been fully respected in all circumstances. All parties had information about the purpose of the study when respondents were requested to fill the questionnaire. Besides, the participant's privacy indemnified and all information obtained in association with study remains confidential and it can only be used to satisfy the study objectives.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATIONS

In this Section, data obtained through structured questionnaire from Chief Executives, Directors, Division Managers, District Managers, and Senior Branch Managers is presented, analyzed and discussed using IBM SPSS Statistics software version 25. This study sought to examine the application of corporate governance principles and challenges at Bunna International Bank S.C. Subsequently, 66 questionnaires were distributed to the aforementioned target group and 55 or 83.33% were returned and considered as valid to proceed to analyzing the information obtained as a result.

		Frequency	Percent	Cumulative Percent
Gender	Male	43	78.2	78.2
	Female	12	21.8	21.8
	Total	55	100.0	100.0
Age Block	25-35	7	12.7%	12.7%
	36-45	33	60.0%	60.0%
	>45	15	27.3%	27.3%
	Total	55	100.0%	100.0%
Work Experience	< one year	4	7.3%	7.3%
	1-3 years	4	7.3%	7.3%
	3-5 years	11	20.0%	20.0%
	5-8 years	21	38.1%	38.1%
	>8 years	15	27.3%	27.3%
	Total	55	100.0%	100.0%
Education	Degree	15	27.3%	27.3%
	Masters	40	72.7%	72.7%
	Total	55	100.0%	100.0%
Capacity	Chief_Executives	5	9.1%	9.1%
	Director	15	27.3%	27.3%
	District_Manager	3	5.5%	5.5%
	Division_Manager	27	49.0%	49.0%
	Branch_Manager	5	9.1%	9.1%
	Total	55	100.0%	100.0%

Table 4.1 Respondents Demographic characteristics

4.1 Demographic Characteristics of the Respondents

The demographic characteristic of the respondents (i.e Gender, Age, Educational background, work Experience and level of function) were discussed in the following section. Accordingly, regarding to the gender composition of respondents 43 or 78.2% were found to be male while the remaining 13 or 21.8% were female. Furthermore, as can be seen from Table 4.1, 33 of the respondents, which represents 60% of the total population aged between 36-45, followed by 15 respondents that represents 27.3% are included to the age block of above 45 , and 7 out of the total 55 are found to be aged between 26-35 and their share of representation is only 13.7%

The number of services of the target respondents registered at Bunna International Bank S.C was among the information gathered through the questionnaire. Accordingly, as summarized in Table 4.1 the majority 38.1% of the respondents has served the bank from 5-8 years, followed by 27.3% serving the bank for more than 8 years; those respondents who served the bank 3-5 years are accounted for 20% while the remaining respondents served the bank for less than one year & 1-3 years accounted for 14.6% .

Regarding the educational background of the respondents, 40(72.7%) out of the total respondents have Masters Degree in their ranks, while the rest 15(27.3%) have the first degree. Moreover, the study further assessed the managerial capacity or positions of the respondents. As shown in Table 4.1, 27(49%) of the respondents have the capacity of Division Manager, 15(27.3%) are Directors, 5(9.1%) are Chief Executives, 5(9.1%) are Senior Branch Managers, and the remaining 3(5.5%) are District Managers.

To sum up, considering the level of Managerial Capacity, work experience and relevant educational background and maturity of the respondents, the information obtained are believed to be more valuable. Furthermore, the respondents are among the decision makers of the Bank, the governance issue is part of their task and understandings in this regard have an immense impact in examining the applicability or challenges of corporate governance in Banking Industries.

4.2 Corporate Governance Framework

Under this unit, the respondents were asked questions with regard to the existence of permissive culture to practice good corporate governance principles. Their level of agreements were required since the questionnaire were provided using likert scale that ranged from Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree. Consequently, their responses analyzed as follows;

Corporate Governance Cultures		SD	D	N	A	SA	TOATL
The Bank Promotes Good governance practices and ethical corporate culture inside the organizations	Frequency	0	3	11	35	6	55
	Percent	0	5.5%	20.0%	63.6%	10.9%	100.0%
There is a corporate governance committee whose mandate is to oversee whether the bank is fulfilling its commitment to enhance good corporate governance	Frequency	2	3	22	20	8	55
	Percent	3.6%	5.5%	40%	36.4%	14.5%	100.0%
The bank has a program to raise employee awareness of corporate governance issues and the role which every employee can play in strengthening governance within the bank	Frequency	6	16	17	14	2	55
	Percent	10.9%	29.1%	30.9%	25.5%	3.6%	100.0%
Corporate governance objectives are formulated in voluntary codes and standards that do not have the status of law or regulation	Frequency	2	9	13	28	3	55
	Percent	3.6%	16.4%	23.6%	50.9%	5.5%	100.0%
Applicable corporate governance principles are incorporated in to the corporate governance policy of the Bank	Frequency	0	1	8	28	18	55
	Percent	0%	1.8%	14.5%	50.9%	32.7%	100%
The retiring board prepare a comprehensive report and submit to the National Bank & Board secretary within the allotted time frame	Frequency	0	0	20	19	16	55
	Percent	0%	0%	36.4%	34.5%	29.1%	100.0%
The Bank provide relevant trainings to board members on priority basis and report the same to National Bank for validation of its compliance	Frequency	0	2	11	21	21	55
	Percent	0	3.6%	20%	38.2%	38.2%	100%

Table 4.2 Corporate Governance Cultures

Table 4.2 depicts the results on ensuring the corporate governance frame work which is the basis for adption of relevant corporate governance principles. Accordingly, 35(63.6%) of the respondents were agreed that the Bank Promotes Good governance practices and ethical

corporate culture inside the organizations, whereas 6(10.9%) their strong agreement which plunge the total agreement level to 74.5%, contrary to this 5.5% of the respondent disagreed. The remaining 11(20%) were neutral. Likewise, 50.9% of the respondents agreed, as 40% being neutral and the rest 9.1% expressed their disagreement to the availability of a corporate governance committee whose mandate is to oversee whether the bank is fulfilling its commitment to enhance good corporate governance.

With regard to the issue that the bank has a program to raise employee awareness of corporate governance issues and the role, which every employee can play in strengthening governance within the bank, the majority 40% of the respondents did not agree while 30.9% of the respondents remain neutral, however the remaining 29.1% were agreed. Corporate governance objectives are formulated in voluntary codes and standards that do not have the status of law or regulation were one the questions that the study tried to examine. Accordingly, 56.4% of the respondents agreed, 23.6% were neutral, and the remaining 20% disagreed.

On the other hand, incorporation of an applicable corporate governance principles in to the corporate governance policy of the bank has bought the agreement of 83.6% of the respondents while 14.5% of the respondents claimed as neutral, and the remaining 1.8% that is insignificant number of the respondents disagreed. Furthermore, 63.6% of the respondents agreed, 36.4% of the respondents became neutral and there were no respondent expressed a disagreement to The retiring board prepare a comprehensive report and submit to the National Bank & Board secretary within the allotted time frame.

The last questions presented concerning developing the corporate governance framework has been the following: The Bank provides relevant trainings to board members on priority basis and report the same to National Bank for validation of its compliance and 76.4% the respondents agreed, 20% were neutral and the remaining 3.6% of the respondents disagreed.

Based on the summarized information from Table 4.2, the Bank has developed a corporate governance framework where principles are used as a national standard or as a complement to legal or regulatory provisions, compliance and sanctions is clearly specified.

4.3. Protecting the Rights of Shareholders

Rights of Shareholder		SD	D	N	A	SA	TOATL
Shareholders have the opportunity to participate effectively and vote in general shareholder meetings and informed of the rules, including voting procedures, that govern general shareholder meetings	Frequency	0	2	1	34	18	55
	Percent	0	3.6%	1.8%	61.8%	32.7%	100.0%
Effective participation of shareholder in decisions, such as the nomination and election of board members are ensured.	Frequency	0	2	2	35	16	55
	Percent	0	3.6%	3.6%	63.6%	29.2%	100.0%
Employees as a stakeholder can freely communicate their concerns about unethical or illegal practices to the board; and there is established mechanisms to do so	Frequency	9	19	16	9	2	55
	Percent	16.4%	34.5%	29.1%	16.4%	3.6%	100.0%
Every stakeholder interested to involve in the corporate governance process has an access to relevant, sufficient and reliable information on timely and regular basis	Frequency	5	4	30	14	2	55
	Percent	9.1%	7.3%	54.5%	25.5%	3.6%	100.0%
The bank takes specific steps to align the long term interests of employees with the long term interests of the bank	Frequency	1	4	21	23	6	55
	Percent	1.8%	7.3%	38.2%	41.8%	10.9%	100%

Table 4.3 Protecting the Rights of Shareholder

SD stands for Strongly Disagree, D stands for Disagree, N stands for Neutral, A stands for Agree, SA stands for Strongly Agree.

Effective corporate governance framework is expected to ensure the equitable treatment of shareholders and should be designed to protect and facilitate each and every shareholder exercise their ultimate rights. Table 4.3 shows summarized responses regarding protecting the rights of shareholders and other stakeholders of the bank. Hence, respondents were asked to

portray the level of their agreement with regard to the practical application of these criteria in the bank.

Accordingly, for the issue contemplated as “Shareholders have an opportunity to participate effectively and vote in general shareholder meetings and informed of the rules, including voting procedures, that govern general shareholder meetings”; out of the total of 55, 94.5%(52) of the respondents were disclosed their agreement, 2(3.8%) of the respondents disagreed, and 1(1.8%) respondent became neutral.

Similarly, the next issue floated to the respondents was about Effective participation of shareholder in decisions, such as the nomination and election of board members are ensured. The responses were almost comparable with the previous one as 51 (92.8%) of the respondents agreed, 4 (7.2%) of the respondents being neutral and portrayed their disagreement with equal rate each. On the other hand, the study further sought to capture the views of the respondents concerning employees as a stakeholder can freely communicate their concerns about unethical or illegal practices to the board; and there is established mechanisms to do so. Their respective responses were 50.9% disagreed, 29.1% of the respondents became neutral, the remaining 20% of respondents agreed.

Every stakeholder interested to involve in the corporate governance process has an access to relevant, sufficient and reliable information on timely and regular basis was among the criterion set to deal with. 54.5% of the respondents indicated their neutral position while 29.1% agreed and the remaining 16.4% of the respondents disagreed.

Moreover, whether the bank takes specific steps to align the long-term interests of employees with the long-term interests of the bank is forwarded to the respondents. As a result, 52.7% of the respondents confirmed their agreement, however, 38.2% remained neutral and the remaining 9.1% of respective respondents disagreed to the case.

As clearly shown in Table 4.3, the Shareholders’ rights to influence the governance of the Bank on certain fundamental issues, such as the election of board members, or other means of influencing the composition of the board, approval of extraordinary transactions, and other basic issues as specified in corporate governance policy of the bank is respected.

4.4. Board Composition and qualification

Board of Directors has an immense responsibility at influencing corporate governance practices in a given company particularly in financial institutions like Banks. The following section has compiled issues concerning attributions of boards towards corporate governance. Responses gathered in this regard summarized under table 4.4.

Board Composition and qualification		SD	D	N	A	SA	TOATL
The composition of the Board has the right size and has the best mixture of core competencies to ensure its optimum effectiveness.	Frequency	1	3	30	15	6	55
	Percent	1.8%	5.5%	54.5%	27.3%	10.9%	100
All board members fulfills the minimum educational qualification required by National Bank	Frequency	0	0	6	37	12	55
	Percent	0	0	10.9%	67.3%	21.8%	100
The board comprises fair number of Non-influential shareholders	Frequency	3	4	38	8	2	55
	Percent	5.5%	7.3%	69.1%	14.5%	3.6%	100
Female directors are included in the board	Frequency	0	3	5	36	11	55
	Percent	0%	5.5%	9.1%	65.5%	20.0%	100
There is a clear distinction between the role of board chairperson and the CEO	Frequency	1	1	11	30	12	55
	Percent	1.8%	1.8%	20.0%	54.5%	21.8%	100%

Table 4.4 Board Composition and qualifications

The board must be suitable to carry out its responsibilities and have a composition that facilitates effective oversight. For that purpose, it should be comprised of individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the bank. Accordingly, the study intended to analyze the composition and qualification of the board members of Bunna Bank.

Hence, the composition of the Board has the right size and the best mixture of core competencies to ensure its optimum effectiveness was the first question respondents to deal with. The findings indicate that 54.5% of the respondents were found to be neutral, 38.2% of them showed their agreement while the rest suggested their disagreement. The substantial proportion of the respondents that is 90.1% agreed followed by 10.9% of the respondents revealed to be neutral and no response was found for the disagreement for the issue of all board members fulfills the minimum educational qualification required by National Bank. This implies that board members of the bank have a required educational qualification as required by the National Bank of Ethiopia.

In addition, respondents were also asked to give their opinion whether the board comprises fair number of Non-influential shareholders. In this regard, 69.1% of the respondents are neutral, 18.1% agreed and the remaining 14.6% disagreed. From the response, the composition of the board regarding to involvement of non-influential shareholders seems asymmetric to the target group. Likewise, whether Female directors are included in the board has brought to the attention of the respondents to identify their opinion. Accordingly, 85.5% of the respondents agreed, followed by 9.1% neutral and 5.5% of the respondents disagreed.

Furthermore, on the issues of distinction between the role of CEO and board directors of Bunna International Bank S.C, 76.3% of respondents are agreed whereas 3.6% are disagreed with the issue and 20.0% are neutral.

Based on informations obtained from the respondents, the composition and qualifications of the board members are found to be well qualified, diversified and have a clear understanding of legal, and regulatory offices requirements.

4.5. Roles and Responsibilities of the Board

The purpose of this questionnaire was to be acquainted with the boards of directors are making crucial decisions, such as executive compensation, develop rules, regulations, and various policies. Besides, Directors represent shareholders of the company as they are elected by shareholders or appointed by, other board members. In some instances, board obligations stretch beyond financial optimization, as when shareholder resolutions call for certain social or environmental concerns to be prioritized. The board of directors must ensure that the company's

corporate governance policies incorporate the corporate strategy, risk management, accountability, transparency, and ethical business practices.

As depicted under Table 4.5, the following questionnaires are designed as to enable to identify the practice at Bunna International Bank S.C. As a result, whether the board develops and submits rules, regulations and policies to the ordinary general meeting for approval. The finding collected from the respondent's show that 81.8% of the respondents believe that the boards of directors are up to the task and agreed to the issue, 12.7% of the respondents are neutral and the remaining 5.5% of the respondents disagreed.

On the other hand, the Board has put in place a policy to prevent conflict of interest where personal interest would not be advanced at the expense of the Bank was among the issues forwarded to the respondents. Similarly, 54.5% of the respondents are neutral, where as 38.1% of respondents disagreed and 10.9% portrayed their agreement. The majority of the respondents, that is 61.8% of the participant who gave their response agreed that the Board monitors the capital adequacy of the Bank on an on-going basis, however, 5.4% of respondents disagreed and the remaining 32.7% are neutral.

Furthermore, participants were asked to suggest their opinion whether there is a formal and transparent nomination process for Board Committees, 81.8% of the respondents agreed to the issue, where as 10.9% are neutral, and 7.2% disagree. The last subject provided in this aspect was, board committees fulfill their assigned roles and report to the Board on timely and regular basis, hence the finding shows that 49.1% of respondents are agreed, 50.9% are neutral and no participant disagreed to the issue.

Roles and Responsibilities of the Board		SD	D	N	A	SA	TOATL
The Board develop and submit rules, regulations and policies to the ordinary general meeting for approval	Frequency	0	3	7	32	13	55
	Percent	0%	5.5%	12.7%	58.2%	23.6%	100.0%
The Board has put in place a policy to prevent conflict of interest where personal interest would not be advanced at the expense of the Bank	Frequency	2	19	30	4	2	55
	Percent	3.6%	34.5%	54.5%	7.3%	3.6%	100.0%
The Board monitors the capital adequacy of the Bank on an on-going basis	Frequency	1	2	18	24	10	55
	Percent	1.8%	3.6%	32.7%	43.6%	18.2%	100.0%
There is a formal and transparent nomination process for Board Committees	Frequency	2	2	6	35	10	55
	Percent	3.6%	3.6%	10.9%	63.6%	18.2%	100.0%
Board committees fulfill their assigned roles and report to the Board on timely and regular basis	Frequency	0	0	28	22	5	55
	Percent	0	0	50.9%	40.0%	9.1%	100%

Table 4.5 Roles and Responsibilities of the board

4.6. Perception about challenges of practicing good corporate governance principles

Various literatures suggests that implementation of rigorous corporate governance codes are difficult. Good governance is an ideal. Practicing good corporate governance principles solicit various independent institutions to work together. Ideas and experiences of well-intentioned peoples and scholars shall be forwarded to policy makers to design the workable

framework. Nonetheless, though there are considerable sound corporate governance codes or principles to bench mark in operations of all sizes, non-compliance to those codes due to various constraints contributed for the collapse of reputable financial and non-financial institutions. Besides, corporate governance is a derivation of the companies' mission statement and values. Thus, the directors and stakeholders might have a clear guide how to behave while dealing with corporate matters.

Having said that, the perception about challenges in practicing good corporate governance was an area where the researcher intended to examine and get the insight of the respondents. Consequently, 15 relevant issues such as conflict of interest, misuse of authorities, accountability, responsibility, and composition of the board, synergy between the board and the management, qualification and the likes were addressed via the questionnaire.

As shown in table 4.6, a number of criteria regarding the challenges of practicing good corporate governance at Bunna International Bank S.C are listed and the respondents were asked to describe the level of their agreement.

In response to whether the respondents see Lack of Clear and consistent enforcement mechanism as a challenge to practice sound corporate governance, 74.5% of the respondents agreed, 20% of the participants are neutral and the remaining 5.5% of the respondents disagreed. This implies that, the corporate governance policy of the bank lacks appropriate enforcement mechanisms. The following issue that the respondents dealt with has been concerned with conflict of interest as a challenge. Accordingly, 74.6% of respondents nodded positively where as 20% of them are neutral and 5.5% disagreed to consider conflict of interest as a problem to exercise good corporate governance in the bank.

Furthermore, 63.6% of participants engaged to the study agreed, 23.6% are neutral and 12.8% of the respondents disagreed to prioritizing short-term performance as a challenge. Regarding whether the short tenure of the board can be seen as a challenge to promote good corporate governance was among the issues presented to grab the respondents' opinion. 47.3% of the respondents disagreed, 32.7% the respondents are neutral and 20% agreed. Similarly, the majority 49.1% were found to be neutral, 32.7% of respondents agreed while disagreed respondents' amount for 19.2% in considering composition of the board as challenge.

What would you consider as a challenge to practice good corporate governance in the Bank?		SD	D	N	A	SA	TOATL
Lack of Clear and consistent enforcement mechanism	Frequency	0	3	11	30	11	55
	Percent	0%	5.5%	20.0%	54.5%	20.0%	100.0%
Conflict of interest	Frequency	0	3	11	32	9	55
	Percent	0%	5.5%	20.0%	58.2%	16.4%%	100.0%
Prioritizing short term performance	Frequency	0	7	13	29	6	55
	Percent	0%	12.7%	23.6%	52.7%	10.9%	100.0%
Short tenure of the board	Frequency	3	23	18	9	2	55
	Percent	5.5%	41.8%%	32.7%%	16.4%	3.6%	100.0%
Composition of the board	Frequency	1	9	27	13	5	55
	Percent	1.8%	16.4%	49.1%	23.6%	9.1%%	100%
Sabotage of governance by management at operational level	Frequency	3	6	23	19	4	55
	Percent	5.5%	10.9%	41.8%	34.5%	7.3%	100%
Lack of synergy between the board and management	Frequency	1	2	18	28	6	55
	Percent	1.8%	3.6%	32.7%	50.9%	10.9%	100%
Unethical activities	Frequency	2	14	13	17	9	55

	Percent	3.6%	25.5%	23.6%	30.9%	16.4%	100%
Misuse of authorities	Frequency	3	4	10	28	10	55
	Percent	5.5%	7.3%	18.2%	50.9%	18.2%	100%
Qualification	Frequency	9	19	13	11	3	55
	Percent	16.4%	34.5%	23.6%	20.0%	5.5%	100%
Deficient oversight of policies and procedures	Frequency	8	15	15	16	1	55
	Percent	14.5%	27.3%	27.3%	29.1%	1.8%	100%
Lack of accountability	Frequency	3	5	27	13	6	55
	Percent	5.5%	9.1%	49.1%	23.6%	10.9%	100%
Lack of transparency	Frequency	2	6	21	19	7	55
	Percent	3.6%	10.9%	38.2%	34.5%	12.7%	100%
Reluctance to bear responsibility	Frequency	1	13	14	24	3	55
	Percent	1.8%	23.6%	25.5%	43.6%	5.5%	100%
Substandard remuneration scheme	Frequency	1	4	31	18	1	55
	Percent	1.8%	7.3%	56.4%	32.7%	1.8%	100%

Table 4.6 Challenges of Good Corporate Governance

As disclosed in the above table 4.6, ‘Sabotage of governance by management at operational level’ forwarded to the respondents to deal with. Consequently, 41.8% of the respondents show their agreement; equally, the same number of respondents that is 41.8% are neutral, while the rest 16.4% disagreed. Likewise, if unethical activities were deterring the

practice of good corporate governance in the Bank has scrutinized. Respective responses of the respondents were, 47.3% agreed, 29.1% disagreed and 23.6% of the respondents are neutral. This means unethical activities are threatening the corporate governance of the bank and needs the series attention from the concerned governing body of the Bank and regulatory.

To further explore the subject, participants who involved in the study were asked to give their valuable insights about the status of 'misuse of authorities' in the bank and its effect on good corporate governance. Subsequently, the majority that is 69.1% of the respondents substantiate their agreement while 18.2% are neutral and 12.7% of the respondents disagree. On the other hand, 'qualification' as minimum requirement is set by National Bank of Ethiopia while selection of board members, the respondents view in this regard was intended to be examined in the study. Thus, 50.9% of the respondents disagreed, 25.5% of the respondents agreed and 23.9% are neutral. In this case, the majority of the respondents believed educational qualification of the board members could not be considered as a challenge in practicing good corporate governance. The same also supported by same respondents in this study as board members of the Bank have relevant educational preparation.

Moreover, the board of directors are responsible to develop and overseeing policies and rules and regulations. In the mean time, examining the extent to which deficient oversight of policies and procedures considered as a challenge is at the helm of the study. Accordingly, the relative majority of the respondents, which is 41.8% of the participant who gave their response, disagreed, and 27.3% were neutral however, 30.9% are agreed.

Accountability in corporate governance refers to the availability of check and balance as a system. It also refers to the actions of every parties involved in the corporate governance of the company is accountable to the shareholders, other stakeholders and the public. In this context, the position of the bank concerning 'lack of accountability' was checked and the response of the respondents compiled. Hence, 49.1% of the respondents were neutral, 34.5% agreed and, 14.6% of participants who gave their response disagreed.

Transparency on the other hand refers to accurately reporting the financial status of the company. Failure to do so, which means reporting in accurate figure or lack of transparency may cost the company dearly. Furthermore, every decision made at the highest level must be

transparent for those expected to execute at operational level. Having this in mind, for the sake of analyzing the position of the bank in this matter, opinions of the respondents were gathered. Thus, 47.3% of the participant who gave their response agreed while 38.2% were neutral and 14.5% disagreed.

Responsibility in the context of corporate governance must be shared between all parties such as, board of directors, shareholders, executive management and other stakeholders. Accordingly, board has a responsibility to set the strategic direction, provide leadership, and supervise the management. For the same reason, shareholders are responsible to actively participate in major decisions and to appoint the right directors and the management to meticulously discharge responsibilities bestowed to it by the board of directors. Likewise, the participants who gave their responses to the issue ‘reluctance to bear responsibility’ considered as a challenge to corporate governance; 49.1% of the respondents agreed, while 25.5% were neutral and 25.4% disagreed.

Lastly, analyzing the remuneration scheme of the bank was at stake. The respondents have given a chance to react on the issue that described, as ‘substandard remuneration scheme’ would be considered as a challenge in practicing corporate governance. Therefore, as depicted under table 4.6, the majority of the respondents, which is 54.6% were neutral, 34.5% of respondents agreed and 10.9% disagreed. Though difficult to conclude, the remuneration scheme of the bank was considered as hindrance to exercise sound corporate governance policy of the Bank.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter deals with the summary, conclusion and recommendations parts of the study. The purpose of the study was to assess and describe the application of corporate governance principles and challenges taking into account the prevailing practice at Bunna International Bank S.C. This chapter covers also brief summary of the major findings analyzed in the previous chapter (Chapter 4). Furthermore, pertinent conclusions and recommendations to be used as an input for future researches and for policy makers forwarded.

5.1 Summary of the Findings

The study sought to assess and try to identify the challenges to consistently practice sound corporate governance that contribute to the good image of the company and boost investors' confidence to remain competitive in the industry and try to discover the hindering challenges behind. Subsequently, Based on literatures reviewed, National Bank of Ethiopia's Corporate Governance Directives, the Basel Committee (BCBS) guidelines, and OECD's corporate governance principles; 42 structured questionnaires partitioned into 5 sub articles designed and distributed to the target group. Corporate governance cultures and practices, protecting the rights of shareholders and other stakeholders, Board composition and qualification, roles and responsibilities of boards of directors, and perception about the challenges of corporate governance practices were the major topics covered through the questionnaire.

Data was collected by way of self-administered questionnaires which was open ended and the data was analyzed with the use of Statistical Package for Social Scientists; SPSS version 25 which presented results in tabulations of frequencies. While reviewing the findings obtained from demographic characteristics of the participants, significant numbers of the respondents were male that accounted for 78% and the remaining are female. Besides, the majority of the respondents' age ranged from 36 to 45. Regarding to work experience and educational backgrounds, the majority of respondents more than 5 years relevant work experience and has have a second degree in their ranks. Their share contribution stood at 65.4% and 72.7% respectively.

5.1.1 Findings on Corporate Governance Frameworks

The corporate governance framework has an ability to promote an ethical, responsible, and transparent corporate governance principles. The principles can be used as an important tool in the process of developing an effective corporate governance framework.

As per the Basel Committees corporate governance principles for Banks, A fundamental component of good governance is a corporate culture of reinforcing appropriate norms for responsible and ethical behavior. Similarly, the Bank promotes Good governance practices and ethical corporate culture inside the organizations as evidenced by the majority of the respondents' agreement about the existence of favorable culture inside the bank. In addition, there is a strong agreement on the corporate government committee whose mandate is overseeing whether the bank is committed to enhance good corporate governance. However, the bank does not have a structured program to advance employees awareness regarding corporate governance. Nevertheless, the bank has adopted a corporate governance policy, which is in congruent with NBE's directives, and the rules and regulations included in the policy are voluntarily formulated and does not have the status of law. Besides, the retiring board prepares comprehensive summary and report to concerned organs. Board members have attained relevant trainings on timely and need basis.

5.1.2 Findings on Protection of Shareholders' rights

Another important constituent of corporate governance that the study dealt with is protection of the rights of Shareholders and other stakeholders. The right to participate in general shareholder meetings is one of the fundamental rights of every shareholder. Moreover, OECD recommends that effective shareholder participation in key corporate governance decisions, such as the nomination and election of board members, should be facilitated. The National Bank of Ethiopia in its directive regarding corporate governance has stressed this right and the Bank as an institution has an obligation to protect this fundamental right. Hence, the results portrayed in this regard is in congruent with the directive and significantly demonstrates that the rights of shareholder to participate in the nomination of board members participate and vote in general meetings, and the shareholders have prior information about voting procedures and the likes.

On the other hand, as mentioned in chapter two of this study, OECD recommends that, Stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board and to the competent public authorities and their rights should not be compromised for doing this. Nonetheless, regarding treatment of employees as stakeholders, the findings found to be contrary to what recommended on OECD's guidelines. In this case, the result portrayed that employees cannot freely communicate authorities of the bank whenever they see unethical or illegal practices. There is no established mechanism to do so. Besides, the room to involve in the corporate governance of the Bank for any other interested stakeholders is not wide open and access to get timely, sufficient and relevant information is not simple or guaranteed

5.1.3 Findings on Board Composition and Qualifications

Having the right size and best mixtures of qualified and independent board members is very crucial for its effectiveness. The National Bank of Ethiopia also demands, every nominee has the required ingredient before nominated and subject to rigorous scrutinization while approving board members of a given Bank. Subsequently, an issue has been raised to test the position of the Bank in this context. Generally, the results show that the composition of the board concerning qualification, Gender, the size of the board, and distinction between the role of CEO and Board Chairman endorsed by the participants positively and in agreement with NBE's directives. But, the finding fall short of supporting inclusiveness of non-influential shareholders to the board room.

5.1.4 The Role and Responsibilities of Board of Directors

The board is the primary responsible body to influence corporate governance. Together with guiding corporate strategy, the board is essentially responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation recommends OECD. Meanwhile, the above results suggest that, the board is meticulously discharging its responsibilities bestowed by the shareholders. However, the board is found to be deficient in preventing conflict of interest in the Bank as evidenced by data obtained from the study.

5.1.5 Major Findings on Challenges to Practice Good Corporate Governance

Lastly, the study sought to examine the extent of challenges to practice good corporate governance to identify the pitfalls and to propose the way forward to improve the shortcomings. For the sake of obtaining the perception of the study participants 15 separate but related questionnaires presented. Accordingly, the study result suggests, the challenges to practice corporate governance at Bunna International Bank S.C are summarized here under.

- Significant number of the respondents agreed on there is lack of clear and consistent enforcement mechanism ,
- The majority of the respondents believed conflict of interest as a challenge
- Prioritizing short term performance indicated by most respondents as hindrance to practice good corporate governance
- Lack of synergy between the board and the management is cited as challenge by the majority of study participants
- The majority still believes that misuse of authorities is threatening the corporate governance of the Bank
- Furthermore, the relative majority which has the score nearly to 50% agreed such as, reluctance to take responsibility and lack of transparency is among the deterring factors to practicing a good corporate governance. The finally yet importantly, substandard remuneration scheme of the bank has gotten the lion share of neutral respondents.

5.2 Conclusions

The study attempted to examine applications of corporate governance principles and the prevalence challenges taking into account the case of Bunna International S.C. The assessment is made in light of the National Bank of Ethiopia's Corporate Governance Directive NO SBB/071/2019, the Basel committee corporate governance principles for banks (BCBS) and OECD's corporate governance principles.

The major findings revealed that the Bank is doing well in practicing corporate governance practices as evidenced by positive results. The Bank by incorporating important principles in its corporate governance policy; promotes corporate governance cultures throughout

the institution and assigned a corporate governance committee whose mandate is mainly monitoring the wellness of the corporate governance policy of the Bank. However, the Bank does not have a program to raise employees' awareness about the corporate governance. In addition, the bank does not have an established mechanism to report when employees have concerns to illegal and unethical practices.

The finding supports that the shareholders have their fundamental rights to participate in general meetings, vote in major decision makings are protected. Besides, they have an opportunity to get information about the rules and procedures concerning their voting rights.

With regard to the board of directors, except fall short of in properly addressing the prevention mechanism concerning conflicts of interest, they are found to essentially discharge the role bestowed on them by the shareholders and the public at large. Besides, the educational qualification, size, and inclusiveness of female in the board are up to expected.

Most importantly, the finding on challenges in practicing good corporate governance practices portrayed that, lack of clear and consistent enforcement mechanism, conflict of interest, prioritizing short-term performance, lack of synergy between the board and the management, misuse of authorities, and reluctance to take responsibilities as major challenges that needs an attention of the highest governing body of the bank.

5.3 Recommendations

Based on the major findings of the study, OECD's principles of corporate governance, the Basel Committees corporate governance principles for Banks (BCBS 2015), and National Bank of Ethiopia's Corporate Governance directive SBB/71/2019 the following recommendations are suggested.

- Policies can be as good as their implementations. Even if the bank has adopted its own governance policy, unless there is a clear and consistent mechanism to enforce its execution, the expected result or change could not be materialized. Therefore, the Bank should set clear enforcement mechanisms and the same shall be communicated to concerned organs of the Bank. For the same reason, consequences of violating the corporate governance of the bank should be manifested. In addition, The Bank should

ensure that No misconduct would escape punishments comparable with his/her involvements.

- The Bank should put in place a policy that deal with prevention of conflicts of interest.
- Contrary to the strategic document of the Bank, the study reveals that short-termism or prioritizing short-term performance was found to be challenging the Bank from wholly practicing good corporate governance principles. Therefore, the Bank should stress on long-term management to create sustainable growth and revenue as mentioned in its strategic document.
- Lastly, reluctance to bear responsibility is also mentioned as a challenge, hence, the Bank must have a way that responsibility shall be shared among respected bodies and everybody have to be responsible for his deeds, and to shoulder tasks assigned under his/her designated authority.
- A bank's code of conduct or code of ethics, or comparable policy, should define acceptable and unacceptable behaviors.

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Appendix

Addis Ababa University

School of Commerce

Questionnaire

Dear Respondents,

This study is being conducted in partial fulfillment of the requirements of the masters program in business leadership at Addis Ababa University, School of Commerce. The purpose of the study is to examine the application of corporate governance practices and challenges: The case of Bunna International Bank S.C

As part of the research, survey questionnaire is planned to be administered to the Chief Executives, Directors, District Managers, Division Managers, and Senior Branch Managers of the Bank. Accordingly, as you are among the selected representatives of the Bank, you are earnestly requested to participate in the study by responding to the survey questionnaire. This questionnaire is prepared only for gathering information to study corporate governance practices & challenges of the Bank. Your privacy in this regard is guaranteed and the information obtained will be kept strictly confidential and only used for achieving the objectives of the study.

Thank You in Advance!

Melesse Leykun

Part I. General Information (please tick on the appropriate option)

1. What is your gender?

1	Male	
2	Female	

2. What is Your Age block?

1	2	3
25-35	36-45	> 45

3. The highest level of education you attained.

1	2	3
Degree	Masters	Phd

4. How long Have you been working at Bunna International Bank S.C

1	2	3	4	5
< one year	1- 3 years	3- 5 years	5-8 years	Above 8 years

5. What is your capacity (level) of function?

1	2	3	4	5
Chief Executives	Director	District Manager	Division Manager	Branch Manager

Part II. Corporate Governance Frame work

Please indicate the extent of your agreement with statements listed below ranging from; 1–5, 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree. Please use (√) to indicate your choice;

	A) Corporate Governance Cultures	1	2	3	4	5
1	The Bank Promotes Good governance practices and ethical corporate culture inside the organizations					
2	There is a corporate governance committee whose mandate is to oversee whether the bank is fulfilling its commitment to enhance good corporate governance					
3	The bank has a program to raise employee awareness of corporate governance issues and the role which every employee can play in strengthening governance within the bank					
4	Corporate governance objectives are formulated in voluntary codes and standards that do not have the status of law or regulation					
5	Applicable corporate governance principles are incorporated in to the corporate governance policy of the Bank					
6	The retiring board prepare a comprehensive report and submit to the National Bank & Board secretary within the allotted time frame					
7	The Bank provide relevant trainings to board members on priority basis and report the same to National Bank for validation of its compliance					

B) Protecting the right of Shareholders’ and other stakeholders

	Rights of Shareholders’ and Stakeholders	1	2	3	4	5
1	Shareholders have the opportunity to participate effectively and vote in general shareholder meetings and informed of the rules, including voting procedures, that govern general shareholder meetings					
2	Effective participation of shareholder in decisions, such as the nomination and election of board members are ensured.					
3	Employees as a stakeholder can freely communicate their concerns about unethical or illegal practices to the board; and there is established mechanisms to do so					
4	Every stakeholder interested to involve in the corporate governance process has an access to relevant, sufficient and reliable information on timely and regular basis					
5	The bank takes specific steps to align the long term interests of employees with the long term interests of the bank					

C) Board Composition and Qualifications

	Board composition and qualification	1	2	3	4	5
1	The composition of the Board has the right size and has the best mixture of core competencies to ensure its optimum effectiveness.					
2	All board members fulfills the minimum educational qualification required by National Bank					
3	The board comprises fair number of Non-influential shareholders					
4	Female directors are included in the board					
5	There is a clear distinction between the role of board chairperson and the CEO					

D) Roles and Responsibilities of the Board

	Roles and Responsibilities of the Board	1	2	3	4	5
1	The Board develop and submit rules, regulations and policies to the ordinary general meeting for approval					
2	The Board has put in place a policy to prevent conflict of interest where personal interest would not be advanced at the expense of the Bank					
3	The Board monitors the capital adequacy of the Bank on an on-going basis					
4	There is a formal and transparent nomination process for Board Committees					
5	Board committees fulfill their assigned roles and report to the Board on timely and regular basis					

Part III. Perception about challenges of practicing good corporate governance principles

	What would you consider as a challenge to practice good corporate governance in the Bank?	1	2	3	4	5
1	Lack of Clear and consistent enforcement mechanism					
2	Conflict of interest					
3	Prioritizing short term performance					
4	Short tenure of the board					
5	Composition of the board					
6	Sabotage of governance by management at operational level					
7	Lack of synergy between the board and management					
8	Unethical activities					
9	Misuse of authorities					
10	Qualification					
11	Deficient oversight of policies and procedures					
12	Lack of accountability					
13	Lack of transparency					
14	Reluctance to bear responsibility					
15	Substandard remuneration scheme					

