

EFFECTS OF CORPORATE GOVERNANCE MECHANISMS ON FINANCIAL PERFORMANCES OF SELECTED GOVERNMENT AND PRIVATE COMMERCIAL BANKS IN ETHIOPIA

BY

DAWIT BILILEGN W/GEBRAL

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ADVISOR: DR ABEBAW GUALU

ACCOUNTING AND FINANCE DEPARTMENT

COLLEGE OF BUSINESS AND ECONOMICS

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Addis Ababa University

School of Graduate Studies

This is to certify that the thesis prepared by Dawit Bililegn, entitled "Effects of Corporate Governance Mechanisms on Financial Performance of Selected Government and Private Commercial Banks in Ethiopia" and submitted in partial fulfillment for Masters of Accounting and Finance complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

Approved by the Examining Committee

External Examiner: Name: **Tigist Belachew (PhD)** Signatures _____ **Date: July,2026**

Internal Examiner: Name: **Andualem Zenebe (PhD)** Signature _____ Date 14/07/2026

Advisor: : Name **Abebaw Gualu (PhD)** Signature _____ Date 14/07/2026

_____

Graduate Program Coordinator

DECLARATION

I, Dawit Bililegn, hereby declare that this thesis, titled -Effects of Corporate Governance Mechanisms on Financial Performance of Selected Government and Private Commercial Banks in Ethiopia‖ is my original work and has not been submitted for any degree in any other university or institution. All sources of information used in this study have been duly acknowledged.

Name: Dawit Bililegn

Signature: _____

Date: _____

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ABBREVIATIONS AND ACRONYMS

AIB	Awash International Bank
ALCO	Asset and liability management committee
BA	Bank of Abyssinia
BIB	Berhan International Bank Sc
CBE	Commercial Bank of Ethiopia
CBO	Coperative Bank of Oromia
CEO	Chief Executive Officer
DB	Dashen Bank
Dip	Diploma
FE	Fixed Effects
HI	Hibret Bank S.C
LIB	Lion International Bank
MA/SC	Master
NBE	National Bank of Ethiopia
NIM	Net Interest Margin
PhD	Doctor of Philosophy
RE	Random Effects
ROA	Return on Assest
ROE	Return on Equity
VIF	Variance inflation factor
WG	Wegagen Bank
ZB	Zemen Bank Sc

ABSTRACT

This study aims at examining the effects of corporate governance mechanisms on financial performances of selected government and private commercial banks in Ethiopia 2010-2023 with a sample of ten Ethiopian commercial banks. The study assessed the relationship between selected corporate governance variables, and bank performance as measured by ROA, ROE and NIM. Corporate governance variables considered in this study includes Board Meeting, Existence of sub-committee, Total Meting per Year, Size of the Board of Directors, Experience on Financial Sector, Size of the bank, Bank Age, Number of Female Directors, Educational Qualification, of the banks. Explanatory research design was employed to establish the causal relationship between corporate governance and performance measure variables. The study uses both primary and secondary source of data .Primary data was collected using questioner which is completed by board secretary and senior management of the sample commercial banks as they were in better position to comment on corporate governance issues and the secondary data was collected from the National bank of Ethiopia. The study utilizes panel data, fixed effect and random effect model analysis methodology by using SPSS and STAT software in drawing conclusion about the study. The findings reveal that while board members with financial sector experience positively affect ROA, while board size negatively affects both ROA and NIM. Educational qualification positively affects ROE and the existence of sub-committees positively affects NIM. Bank size and bank age were also significant determinants across various performance measures. Gender diversity, meeting frequency, and total meetings per year were found to be statistically insignificant. The study concludes that effective corporate governance mechanisms particularly financial sector experience, optimal board size, sub-committee existence, and board education significantly enhance bank financial performance; though not all governance variables are equally relevant. Based on these findings, the study recommends that Ethiopian commercial banks prioritize recruiting board members with financial sector experience, maintain moderate board sizes, strengthen sub-committee functions, and reform regulatory policies. The study also recommends that the National Bank of Ethiopia enhance governance guidelines to promote gender diversity and meeting effectiveness.

Keywords: Corporate Governance, Financial Performance, Commercial Banks and Ethiopia

Chapter One

1. INTRODUCTION

1.1 Background and Rationale

Banks play a huge role in the development of any country by guarantying the development of the society through their day-to-day operations (Hafez, 2015). Based on this brief backdrops n the importance of any Banks through their day-to-day operations, several studies have identified different theoretical foundations that guides studies like the effects of corporate governance mechanism on financial performances including Agency Theory (Berle & Means, 1932), Stakeholders' Theory (Peters & Bagshaw, 2014), Resource Dependency Theory (Ajoa, 2014, Peters & Bagashaw, 2014), and Upper Echelon Theory (Hambrick & Manson 1984), (Nielsen, 2010) ,(Niesen & Nieslon, 2013).

Besides, building on these theoretical foundations, conceptually corporate governance constitutes top managerial staff, senior administrations, and shareholders, board of executives, other corporate shareholders, and structures and the allotment of obligation inside organizations (Yuskel, 2005; 2008; Proimos, 2005) that could have effects on the financial performances of a given firm (McGee, 2008;Feng, 2010).

In terms, of the importance Stable banking sector in general and their good financial performances, it was reported that corporate governance for banks in developing economies is essential for several reasons including banks have an overwhelmingly predominant position in developing-economy monetary systems and banks in developing economies are commonly the most imperative wellspring of money for the more firms as financial markets are normally underdeveloped (Huq & Bhuiyan, 2012).

In other words, good corporate governance (banks) enhances financial productivity and development improves the investors' certainty. Likewise, it expands access to external financing by firms, lowers the expense of capital, and increments operational performance, which demonstrated that the investors are ready to pay extensive premiums for banks with successful corporate governance; all implying that effective corporate governance will prompt an increasing the firm value as well as better firm execution.

Stable banks' operations and their good financial performances have multiple advantages to the country in general and to the banks themselves in particular. For examples, according to the research findings reported by Levine (2004) "when banks apply good governance, banks will efficiently mobilize and allocate funds, this lowers the cost of capital to firms, boosts capital formation, and stimulates productivity growth" (p. 2).

Furthermore, there exists interconnections between corporates governance systems and firm's finance perfances (Avgouleas,2009). According to the study reports done by scholars like Levine (2004) and Avgouleas (2009), such interconnectedness could result in the improvement of the banking sectors, brings about bank's comprehensive results in less cost of funds, higher company's market value, and higher productivity (Levine, 2004) and moreover such relationship could lessen risk and enhance business of firms, prompts better execution and accounting results (Avgouleas, 2009).

Nevertheless, despite the significance of effective corporate governance practices and policies, in poor and bad corporate governance and their insider misuses, low quality administrations, and weak supervisory structures will have an adverse effect by contributing to poor financial performances of the banks. That is, to the extent of the knowledge of the researcher, there are limited research out puts on effects of corporate governance mechanisms on financial performances in Ethiopia due to the fact that the banking history in Ethiopia was lately started by the establishment of Abssinia in 1905 by Emerior Minilik II. On top of this, it was in 1994 that the first private bank was established by Awash Bank revealing that limited number of reseach outputs similar to the current study. Such limitations have contributed to limited monitoring and evalution systems on bank performances in Ethiopia in terms of their Return on Assest (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) profitability, challenges, and corrective policy measures. Besides, the corporate governance landscape of Ethiopian banks are characterized by the lack of a structured stock market, along with unique regulations, practices, and economic conditions that will necessitate a dedicated investigation.

Thus, the researcher has decided to study the effects of corporate governance mechanisms on the financial performance of 10 government and private commercial banks in Ethiopia that would enable these institutions to maximize opportunities for competition not only at the national level but also on the international stage, too.

1.2 Statement of the Problems

Commercial banks have a dominant role in developing economic financial systems and are basic machines to improve the economic growth of a country. Thus, banking failure would affect the whole financial system and economy of a country. The development, translation and proper implementation of corporate governance mechanisms in banks is mandatory to ensure the improvement of the company performance, financial performance and growth, and to make sure investors' are confident on the banks they invest (Levine, 1997).

Bahreini and Zain (2013), on their study conducted in bank industry concluded that the cause for investors lack of confidence and the financial crisis happened in organizations and the remedies for these is corporate governance mechanisms, either it is poorly designed board structures, there is no proper board meetings, no adequate number of board members, no adequate number of board committee or composition of boards compromised or there is lack of proper law›s and regulations governing corporate governance mechanisms structures. This would result in lack of adequate disclosures for financial reports presentations, no fair presentations and lack of transparency in their recording and reporting. Thus, this would result in lack of protection of investment which is due to the result of poor corporate governance mechanisms. When countries work on the ways to improve their corporate governance mechanisms and work on board of directors and make them responsible for the accuracy of financial reports and statement and accountability of the company, there comes a good progress in their financial performance.

As corporate governance helps to ensure accountability and transparency which are very important considerations in banks performance, corporate governance is considered to have influence on bank performance (Akingunola, 2013).Though literatures don't ignore the influence of corporate governance on performance, there are inconsistent findings as some are saying part of the corporate governance variables have positive effect on performance and some others are saying negative effect on banks performance. Board size, audit committee size, and audit committee meeting have positive relationship with performance of bank and percentage of independent nonexecutive board of director and percentage of independent nonexecutive audit committee members have negative correlation with performance of bank (Bahreini et al, 2013).

There are other researchers who emphasize corporate governance variables having negative effect on corporate performance. (Shungu, 2014) on the study entitled impact of corporate

governance on the performance of commercial banks in Zimbabwe identified that there appears a negative relationship between board size, board committees and bank performance though there is a positive relationship between board composition and board diversity. (Stepanova and Ivantsova, 2012) on their study entitled role corporate governance on the banking sector supports the idea that board size has negative relationship where as independent directors and gender diversity of the board (more women, better performance) have positive relationship with performance. (Beyene, Srmolo and Kassa, 2013) also described board size and existence of audit committee in the board has negative effect on bank performance.

Similar studies conducted in the Ethiopian banking sector have also indicated that selected corporate governance variables influence bank financial performance. Ahenafi et al. (2013) conducted a study on the corporate governance mechanisms in the absence of a stock exchange and found that board size and the existence of audit committees have a statistically significant negative impact on the bank's performance measured by ROA and ROE. In a study on mandatory governance mechanisms, Kokeb (2017) finds that regulatory requirements such as risk management committees and board gender diversity reduce profitability, and thus directly contradict financial soundness objectives, while frequent board meetings, a non-mandated practice, enhance performance. Molla (2019) also highlighted a dangerous regulatory disconnect, where governance structures implicitly standardized by the National Bank of Ethiopia, such as larger boards and audit committees, negatively impact bank profitability across multiple dimensions (ROA, ROE and operating profit margins), while unmandated characteristics such as board independence, CEO duality and board ownership concentration positively predict financial performance.

Considering all these above literatures, there are no consistent way of saying these variables of corporate governance have positive or negative relationship with banks performance in Ethiopia. Thus, this research addressed which of these variables have positive and which variables have negative effect on corporate governance measured by financial performances (ROA, ROE, NIM) in Ethiopia and contribution towards the existing literature.

This is particularly significant given that poor corporate governance can have ripple effects on a bank's financial performance, as measured by ROA, ROE, and NIM. For examples, according to the study conducted by Capel (2011), such poor corporate governance mechanims could posture

critical public expenses, lead market loss of trust in the capacity of banks to legitimately deal with its assets and liabilities which will prompt liquidity risk.

Based on financial performance indices including ROA, ROE, and NIM, the review of National Bank of Ethiopia annual reports of the years from 2010 to 2023 for purposively selected 10 commercial banks reveals notable fluctuations (slightly ascending/descending) in their respective financial performances of the target years. These results suggest that, to varying extents, the financial performance of these banks has worsened over the past 14 years.

Based on the secondary data sources reviewed, the determinants of poor financial performance, as evaluated through ROA, ROE, and NIM, several scholars (Dalton et al., 1998; Jensen, 1993; Arun and Turner, 2000; Wang, 2001; Chung et al., 2003; Arjoon, 2005; Wu et al., 2005; Belkhir, 2009; Yung, 2009; Kemaly et al., 2013) have identified demographic factors, along with internal corporate governance mechanisms (see Fig 1, conceptual frame work), that may or may not affect the financial performance of commercial banks in Ethiopia.

1.3 Objectives the Study

The **general objective** of this research was to examine the effects of the corporate governance mechanisms on the financial performance of the 10 commercial banks in Ethiopia for the periods **2010- 2023.**

The current study addressed the following **specific objectives**:

1. To assess the trend and aggregate mean of financial performance (ROA, ROE and NIM) of selected commercial banks in Ethiopia from 2010 to 2023.
2. To examine the effect of demographic characteristics of board members on the financial performance of selected commercial banks in Ethiopia.
3. To determine the effect of internal corporate governance mechanisms on the financial performance of the selected commercial banks in Ethiopia.
4. To identify the most significant corporate governance factors affecting the financial performance of the selected commercial bank in Ethiopia

1.4 Research Questions

The basic questions of the current study include the following::

1. What is the trend and aggregate mean of ROA, ROE, and NIM of the commercial banks in Ethiopia from 2010 to 2023?
2. What is the effect of demographic board characteristics on the financial performance of the banks?
3. What is the effect of internal governance mechanisms on the financial performance of the banks?
4. Which corporate governance factors are the most significant determinants of ROA, ROE and NIM in the Ethiopian banking sectors?

1.5 Scope of the study

In terms of thematic and temporal scopes, this study focused only on the] financial performances of purposive selected 10 commercial banks in Ethiopia during the perionds from 2010 to 2023.

1.6 Significances of the study

The current study has several significances. For examples, it will contribute to the body of knowledge and assist scholars in the field. It will also have a methodological contribution in terms of measuring the financial performances of a given banks using three independent variables (ROA, ROE, and NIM).

1.7 Organization of the study

The full-fledged of the current thesis has five chapters. While the first chapter introduces about background, objectives, basic questions, scope and significances of the study, the second chapter focused on an intensive and exhaustive review of related literatures from which survey tool was developed and later used as triangulation with primary data sources. The third chapter presented description of the study area and methodologies that was followed by the fourth chapter (results and discussions) and fifth chapter (conclusions and recommendations), respectively.

Chapter Two

2 REVIEW OF RELATED LITERATURES

2.1Conceptual Literature review

According to Imam and Malik (2007), the corporate governance theoretical framework provides the most comprehensive control mechanism, embracing the array of corporate determinants that jointly underpin the optimal usage of organizational resources. This framework is by no means uniform across institutions; rather, it is shaped by the distinct expectations and interests of each organization's key stakeholders.

Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. There are a lot of company failures of governance in the world. Corporate governance history can be interrupted by a lot of different corporate failures; the Maxwell Group raid on the pension fund of the Mirror Group of newspapers, the collapse of the Bank of Credit and Commerce International, and also naked Bank. Those corporate failures that are the result of incompetency, fraud, and abuse were led to develop and implement new elements of an action for improved system of corporate governance (Magdi & Naderech, 2000).

Corporate governance system needs to develop and implement in a company not only to solve such kind of corporate failures and inconsistency but also risks and hazards that led the company to failures. According to (Nganga, Jain and Artivor, 2003), corporate governance was defined as “the set of mechanisms through which outside investors are protected from expropriation by insiders”.Nganga survey covered Botswana, Egypt, Ghana, Mauritius, Morocco, Nigeria, Tunisia & Zimbabwe.

The key principles to good corporate governance must be prioritized to enhance the firm’s level of competitiveness. These include; transparency, honesty, trustworthy, openness, integrity, responsibility and accountability. The term corporate governance has been identified to mean different things to different people. As a result it has been defined differently in different ways: Corporate governance is about commitment to values and about ethical business conduct. It is about how an organization is managed. This includes its corporate and other structures, its culture, policies and manner in which it deals with various stakeholders. Corporate governance is primarily the responsibility of the board. The board performs its duties with the support of

managerial staff (La Porta, Lopezde, and Shleifer, 2002). (Melvin and Hirt, 2005) described the concept of corporate governance as referring to corporate decision-making and control, particularly the structure of the board and its working procedures. And they add that corporate governance is also sometimes used widely, embracing a company's relations with a wide range of stakeholders or very narrowly referring to a company's compliance with the provisions of best practice codes. Since the late 1980‟s, the relationship of financial structures of companies with respect to corporate governance, and the susceptible economic effects caused consequently began to be examined.

Corporate governance principles make available a control instrument of the corporation operations and thus give confidence the managers to be more and more successful and encourage the company's performance with long-term strategies (Claessens, 2006). Banks differ from other institutions because of the collapse of banks affect a wider circle of stakeholders resulting in a weak financial system itself which lead to adverse effects on the economy as a whole. Due to this, it is important in placing a special responsibility to the members of the board of directors. Corporate governance in banks as the methods and approaches used to manage banks through the board of directors and senior management which determine how to put the bank's objectives, operation and protect the interests of shareholders and stakeholders with a commitment to act in accordance with existing laws and regulations and to achieve the protection of the interests of depositors (Ibid, 2006). Various corporate governance theories have been developed concerning the nature and significance of corporate governance. The most important corporate governance theories are the agency theory, stakeholder' theory, resource dependency theory and upper echelon theory.

According to Agency and stakeholder theories, corporate governance is associated with the principal-agent or agency problem. Both theories dictate that corporate governance is a mechanism designed to minimize agency conflict in the business environment, resource dependency theory corporate governance is a mechanism to interact the business organization with different resources in the environment and upper echelon theory how leaders psychological characteristic, values and experiences sharper strategy choices. Under this subject matter, the four dominant theories to the corporate governance are discussed.

- **Agency Theory** is based on the reality that control and ownership are separated in large corporations because agency problems occur when the shareholders lack the necessary power

or to monitor and control the managers and when the compensation of the shareholders and the managers is not aligned (Berle & Means, 1932). In additional According to (Habbash, 2010) agency theory is a theory which is based on the principal-agent relationships. The separation of ownership from management in modern corporations provides the context for the functioning of the agency theory. In modern corporations the shareholders (principals) are widely dispersed and they are not normally involved in the day to day operations and management of their companies rather they hire mangers to manage the corporation on behalf of them (Habbash, 2010).

The agents are appointed to manage the day to day operations of the corporation. However, conflict of interest between the agent and the principal may occurs when the agent fails to act in the best interest of the principal, and instead act to maximize their own value. Such conflict of interest occurs due to difference in their preferred level of managerial effort, and their attitude towards risk, which in turn may lead to divergence in the goals of managers and shareholders. Consequently, different control mechanisms either internal or external to the firm should be put in place in order to align the interests of managers and shareholders and/or to solve the agency problem.

According to agency theory, much of corporate governance deals with the limits on managers‟ discretion and accountability. Agency theorists typically take the maximization of shareholder wealth as the primary standard for evaluating corporate performance and ask how the board can serve to further corporate performance. The theory offers many useful ways to examine the relationship between owners and managers and verify how the final objective of maximizing the returns to the owners is achieved, particularly when the managers do not own the corporation's resources. Agency theory identifies the role of the monitoring mechanism of corporate governance to decrease agency or controlling costs and to solve the conflict of interest between managers and owners. It is clear that the principal-agent theory is generally considered as the starting point for any debate on the issue of corporate governance. Boards of directors are expected to be independent, diverse and monitor the actions of managers as agents of the owners to ensure they are acting in accordance with the owners‟ interests. The theory suggests that board composition is important for effectively monitoring top management. Boards have to be diverse in terms of skills, qualifications, experience, and gender balance.

This creates a balance on boards and leads to effective monitoring and subsequently to the successful performance of the organization. Therefore, boards of directors are considered as an important device to protect shareholders from being exploited by managers and help to effectively control managers.

- **Stakeholders' theory** originated from the management discipline and gradually developed to include corporate accountability to a broad range of stakeholders. Stakeholder theory is an extension of the agency theory, where the agency theory expects board of directors to protect only the interests of shareholders. However, stakeholder theory extends the narrow focus of agency theory on shareholders‟ interest to stakeholders to take into account the interests of many different groups and individuals, including interest groups related to social, environmental and ethical considerations like suppliers, employees, business partners and soon (Freeman et al., 2004). At its core, the theory states that the decisions made by the company affects all the parties so the managers should direct the company to reach the interests of its stakeholders in order to certify their role in the decision making process (Peters & Bagshaw, 2014) implying that stakeholders' theory was implemented to fill the gap created by the agency theory. In addition According to stakeholder theory, decisions made regarding the company affect and affected by different parties in addition to stock-holders of the company. Hence, the managers should on the one hand manage the company to benefit its stakeholders in firm to safeguard the long term stakes of each group. Consequently, whether corporate governance should focus exclusively on protecting the interests of equity holders in the corporation, or should expand its focus to deal with the problems of other stakeholders (Asenafi, Kelifa &Yodit, 2013).
- **Resource dependency theory** unlike both the agency and the stakeholders' theory resource dependency theory targets the managers as they are the main and important source of information that will help the corporation to reach its goals such as environmental scanning, legal requirements, political association, and social interactions (Ajoa, 2014) that focus on the role of directors as providers of major resources to the corporation for the achievement of their aims most especially the outside directors whom may be experts in other practiced fields in life that will be a very good assistance for getting the needed information (Peters & Bagashaw, 2014).

- **Upper Echelon Theory** This theory is different from other theory like agency, stakeholder and resource. Upper Echelon Theory focusing on how leaders psychological characteristic, values and experiences sharper strategy choices. The theory postulates that top management demographics partially provide and influence institutional performance and strategy choices. It suggests that decisions made by management do not always have rational reasons but are primarily affected by the natural limits of executives as human beings (Nielsen, 2010). Diverse tenure benefits from different experiences and perspectives brought by the individual CEO and positively impacts financial performance. Thus, to explain organizational outcomes and, eventually, financial outcomes, it is necessary to know the characteristics of the top management. The upper echelon theory deals with senior management demographics; including age, educational background, tenure, and financial positions (is a part of the demographics element of senior management (Niesen & Nieslon, 2013).

2.2 Empirical review

This section of the literature has reviewed the empirical literature on the effects of corporate governance on financial performance of banks and followed by gap analysis and development of conceptual framework, respectively as follows:

2.2.1 Socio economic and demographic characteristics effects on financial performance of a bank

2.2.1.1 Board Gender Diversity

The concept of board gender diversity refers to the inclusion of women in the composition of boards, providing diverse benefits and perspectives. Research suggests that women's board representation can positively affect profitability, as they bring additional skills and perspectives that may not be possible with all-male boards. This can also help minimize potential agency problems, as a more heterogeneous board is less likely to be manipulated by management to achieve personal interests.

However, the findings on the impact of board gender diversity on financial performance are inconsistent. Some studies, such as Adams et al. (2007), Rose (2007), and Singh (2008), support the idea that female directors on the board positively affect profitability. On the other hand, other studies, such as Rose (2007) and Belete Zegeye (2015), found no significant association between the number of women directors on the board and firm performance. In addition Kokeb (2017)

has investigated the impact of corporate governance mechanisms on 19 firms'/ banks operating in Ethiopia financial performance using five years data from the year 2012 to 2016. Results show that negative relationship exists between board gender diversity. And availability of separate risk management committee and the financial performance of these banks. Overall, while the findings on the impact of board gender diversity on financial performance are mixed, the concept of board diversity, including gender diversity, is widely recognized as an important aspect of good corporate governance.

2.2.1.2 Position of Respondent

The position of respondent describes the hierarchical level of the role or job of the participant and this determines the level of authority, level of access to information, and level of involvement in decision-making processes. In corporate governance and financial performance of commercial banks, this variable is relevant to the study because, based on agency theory, the role of key individuals such as board members and top management in formulating corporate strategies and monitoring aligns with the interests of the firm's shareholders, thus affecting financial performance indicators such as ROA, ROE, and NIM (Jensen & Meckling, 1976). In addition, empirical findings of similar studies showed that the role of the respondent significantly affected the quality of information collected, as top-level managers were found to offer strategic views of the firm, while lower-level employees offered operational views of the firm, thus improving the reliability of the findings (Creswell, 2014; Saunders et al., 2019). In the case of developing economies such as Ethiopia, the involvement of top-level management in corporate governance has been found to improve financial performance by effective implementation of governance practices (Tadesse, 2019; Abate, 2020)

2.2.1.3 Educational Qualification

Educational Qualification of Board of Directors is Personal profile factors of directors such as education and experience is important for board efficiency. Hence, less qualified directors are possibly less effective than directors with business qualifications (Ferreira, 2010).

Educational Qualification refers to Board Competency of individual board members. Qualifications of individual board members are important for decision making. Board members with higher qualifications benefit the firms through a mix of competencies and capabilities which helps in creating diverse perspectives to decision making. Presence of more qualified members

would extend knowledge base, stimulate board members to consider other alternatives and enhance a more thoughtful processing of problems.

It is measured by the proportion of board members who had at least college degree to the total number of board members. Higher the number of educated directors in organizational contexts is positively related to receptivity to innovation, creativity, and better strategic decision making. Director's educational qualifications are central to effectively interpret and utilize the information generated by the management. Educational qualification is important since the ability to seek and interpret appropriate information is essential for the efficient operation of the modern corporation and the effective control or guidance of management by boards of directors. It affects the oversight and monitoring role of boards of directors (Gantenbein &Volonte, 2011).

The human capital provided by its board of directors is very important given the corporate board is one of the mechanisms for overseeing the firm and it can arguably provide the knowledge needed to function in the new environment. (Poon, Heong and Lee, 2013) find that there is positive relationship between performance and the qualifications of directors. Their finding supports the belief that top management teams who have qualifications in business-related disciplines such as banking, auditing, legal, and accounting, business administration, information technology, investment management or finance, improved higher firms performance. These qualified directors chose to increase firm performance to promote corporate image, and demonstrate accountability and credibility within the management team. Personal profile factors of directors such as education and experience is important for board efficiency. Hence, less qualified directors are possibly less effective than directors with business qualifications (Ferreira, 2010).

2.2.1.4 Years of Experience

The notable aspect of good corporate governance is the years of experience. It refers to the number of years bank directors, executives, or managers have worked or served in the banking sector or related fields. It implies experience, which equates to knowledge or know-how, which can enhance decision-making processes or oversight of commercial banks.

There are several theoretical concepts that can justify the relationship between experience and good financial performance. Agency Theory, which was first introduced by Jensen & Meckling in 1976, implies that experience can enhance the way the bank is run. Resource Dependency

Theory, as presented by Pfeffer & Salancik in 1978, implies that experience guarantees access to valuable resources. Moreover, Human Capital Theory, as presented by Becker in 1964, implies that experience improves decision-making processes of the bank.

There is a clear correlation between the length of time spent in the field and the financial outcomes of a company. Minton, Taillard, and Williamson's study (2014) is a good example of this, as they found that directors with financial experience do indeed make a significant impact on risk management and the overall success of banks. An overview of Ujunwa's study in 2012 demonstrates how experienced directors contribute to better company performance. In Ghanaian banks, seasoned directors contribute to stability and lessen the chances of financial failure. Conversely, in the United States, experienced CEOs bolster board independence and the overall quality of governance.

However, it is also necessary to understand that experience and years in position do not necessarily follow a linear relationship in this context. New research points to a non-linear relationship, at least in this case. When examining the S&P Composite 1500, we observe a non-linear relationship in financial performance and experience/knowledge. In this case; there is an improvement in financial performance with years of experience and knowledge, though this relationship plateaus after ten years of serving on a board. In Korea's banking sector, there is evidence of a non-linear relationship between CEO tenure and financial performance.

This non-linear relationship suggests that there is a point beyond which too much experience becomes detrimental to performance, leading to inflexibility and a lack of willingness to innovate. In this case, there is also the possibility of CEOs having too much power, leading to dual leadership.

2.2.2. Internal Corporate Governance Mechanisms' effect on financial performance of a bank

Frequent board meetings promote corporate governance, as agency theory suggests that this would reduce information asymmetry between management and shareholders (Jensen & Meckling, 1976). The banking industry is one sector that requires proper management, as banking managers are in charge of depositors' funds. The industry is also highly regulated, thus frequent board meetings are essential in assessing financial statements, risks, capital adequacy, as well as new challenges in banking (Basel Committee on Banking Supervision, 2015). The

National Bank of Ethiopia encourages active board engagement in private and public commercial banks in Ethiopia to enhance financial reporting, risks, as well as overall banking operation.

Empirical studies have presented mixed results on the relationship between the frequency of board meetings and financial performance. Some studies have found a positive and significant relationship, suggesting that the more frequent the board meetings, the better the board supervision, risk management, and profitability (Vafeas, 1999; Adams & Mehran, 2012; Ntim & Osei, 2011). This is because effective boards are in a better position to address any problems that may arise in the business, thus improving ROA, ROE, and NIM. For example, in emerging markets, it has been observed that companies that hold more frequent board meetings have higher ROE and better risk management results.

Conversely, alternative research suggests that the correlation lacks statistical significance, thereby implying that the mere frequency of meetings does not necessarily improve performance results. The effectiveness of meetings, the skills of the board members, and how well the meeting's decisions are put into practice are likely more important than how often the meetings happen (Getahun, 2007; Million, 2017).

In the case of private commercial banks in Ethiopia, some findings indicate that the frequency of meetings is not likely to enhance the ROA or ROE when the effect of the quality of governance is taken into account; the effect is statistically insignificant.

In some cases, it was also found that there were negative or reverse causality effects, whereby boards react to declining performance or organizational problems by calling more board meetings, implying reactive rather than proactive governance (Jensen, 1993; Vafeas, 1999). Too many meetings by the boards could also result in increased administrative costs or governance issues, which could have adverse effects on ROA, ROE, and NIM.

Studies done on the Ethiopian banking sector also offer more insights on the relationship between the frequency of board meetings and the financial performance of the banks. Getahun (2007) found that the effect of the frequency of board meetings was insignificant on the ROA of Ethiopian private commercial banks. Million (2017) also found that although the frequency of meetings was significant in the context of the role of the board in the bank, the same was insignificant in enhancing the bank’s ROA and ROE. It was found by Zewdu (2019) that there

was a positive and significant relationship between the meetings and the financial performance of the banks, which suggests that the meetings are well structured and the decisions are implemented effectively to enhance the ROA and NIM. More recent studies by Simeneh (2024) suggest that the holding of frequent board meetings has a positive effect on ROE and the efficiency of the bank, though this may not be the case if the meetings are too frequent. On the other hand, Amare, Endashaw, and Jerene (2024) argue that banks in Ethiopia that held frequent board meetings showed negative performance results, which could have been caused by reactive governance in periods of financial distress.

Existences of sub committees are internal regulatory and supervision board which oversees the effective operation and acts of the board of directors. They are calculated as the total number of internal sub-committees serving on the board the private commercial bank has at the end of the period. The total minimum required number of internal board committees means the National bank and international corporate governance codes requirements established for a bank that is at least three committees: audits and risk sub-committee, remuneration sub-committee and main board management sub-committee. (Romano et al., 2012) argued that board sub-committees are critical that help to monitor corporate activities and protection of shareholder value. Most of the countries requires all banks to have an internal control, risk and compliance committee, remuneration committee, and nomination committee; among other committees (Bank of Italy, 2008).Audit committee and risk and compliance sub-committees mainly focus on the examination of the financial conditions, on the assessment of internal controls and on the monitoring of bank performance and also review the findings of the internal auditors were reported to the board with some recommended.

The sub-committees should be independent and transparent from the board and clearly communicate to all employees the risk strategy and risk tolerance of the company (Enobakhare, 2010). Nomination committee is one of the most important committee, which appoint in new committed directors and fire uncommitted (Sierra et al., 2006).Remuneration and nomination sub-committee should be comprised only with non-executive directors, of whom the majority should be independent, and chaired by the board chairperson. This committee is a relevant tool to align managers and shareholders' interests, mitigating agency costs and providing a link between managerial actions and performance (Romano et al, 2012). Asset and liability management

committee (ALCO) is required to better perform its role, as it requires more discussions and assures more skills, backgrounds and competences (Alkdaiand, 2012). ALCO is the most appropriate strategy in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and foreign exchange exposure and capital adequacy (Romano & Guerrini, 2012).

In the Ethiopian directives on bank corporate governance there are at least three committees that are allowed to establish but not limited to: audit sub-committee, risk and compliance sub-committee and human resource affairs sub-committee. Those are the total minimum required number of internal board committees that are established by NBE codes of requirements. According to (Bussoli,2013), the board sub-committees are the measurements for better functioning of private commercial banks, as the number of board committees is statistically significant to banks financial performance.(Hlanganipai and Godfrey, 2014) positive relationship between board composition, board diversity and commercial bank performance, although a negative relationship appears between board sizes, board committees. (Rajendran,2012) positive relationship for separate leadership, board composition, board committees. Most of the previous studies concluded that availability of variety number of board committee is positively related to the financial performance by reasoning different variety board committee could provide the diversity that would help companies get critical resources and increase monitoring and controlling capacity of the board.

In general, from the literature, it can be concluded that the total number of annual meetings (including both board and committee meetings) is an efficient governance tool in a firm. Following the agency theory by Jensen & Meckling, the board meeting is believed to be essential in bridging the agency problem existing between shareholders and management. The foreign literature shows that the frequency of board meetings is positively related to financial performance; that is, the return on assets (ROA) and return on equity (ROE) become higher with an increase in the meeting frequency. Among those foreign literatures are Vafeas (1999); Abor & Biekpe (2007); and Adams & Mehran (2012). In a local context, it has been found in Ayele's study conducted in Ethiopia (2017) that there is a positive and significant relationship between the frequency of board meetings and the performance of banks.

On the other hand, the literature shows that although there exists a positive relation between meeting frequency and financial performance, it is not always significant, as in the cases of Uwuigbe (2011); Pathan & Faff (2013); Alemu (2015); Tadesse (2016); and Getachew (2019).

Furthermore, Yung (2009) reported that the size of the board of directors has a great control on the profitability and the good corporate governance. That is, the board size in the board had negative impact on the bank's performance (Kemaly et al, 2013). That is, the larger the size of board, the lager the resources and the opportunities for better bank's financial performance as the board size increase the bank's corporate governance will be boosted (Wu, Lin, Cheng & Lai, 2005), study was resolved that the size of board has a negative effect on the performance of the bank as it is statistically significant. Jensen (1993) also reported that if the bank has large size of board of directors this would lead a miss-function of the board of directors. On the other hand, in the studies of Dalton, Daily, Ellstrand, and (Johnson (1998), Wang (2001), and Belkhir (2009), discovered a positive relationship between board size and efficiency.

Small board of directories of maximum 8 members can help enhance banks execution (Jensen, 1993). Yermack (1996) discovered that there is an existence of a negative relationship between the size of the bank and the performance.

Experience in the financial sector is a critical governance quality that supports the growth of board members' abilities in commercial banks, according to a recent study. In this respect, it will be useful for directors having sufficient experience to make use of their knowledge on various issues related to finance, such as financial risks, financial analyses, and financial regulations. According to the agency theory developed by Michael C. Jensen and William H. Meckling, financial experience contributes to minimizing agency problems and eliminating information asymmetries between management and owners, hence increasing the probability of having better financial performance metrics (such as ROA, ROE, and NIM).Several studies undertaken abroad have established that there is a direct connection between financial experience and performance. For instance, Pablo Andrés and Eleuterio Vallelado (2008) show that knowing a lot about banking is good for ROA and ROE, and Renée B. Adams and Hamid Mehran (2012) show that knowing a lot about money is good for the performance of U.S. bank holding companies. In addition, Aebi, V., Sabato, G. and Schmid, M. (2012) find that financially experienced directors

help improve performance even during the global financial crisis because of efficient Nevertheless; other empirical works show a positive but insignificant association between financial experience and performance. According to one of those studies undertaken by Pathan and Faff (2013), performance measures such as ROA and NIM are positively associated with experience in the banking sector among directors. Nevertheless, the association did not prove to be significant in any model tested. Another work done by Uwalomwa Uwuigbe (2011) revealed a positive but insignificant relationship between financial expertise of directors and the ROA and ROE of Nigerian banks. Likewise, empirical evidence from Ethiopia shows a similar pattern. In From the research carried out by Alemu (2015), Tadesse (2016), and Getachew (2019), it is evident that financial experience affects ROA, ROE, and NIM performance of banks in Ethiopia positively, but not significantly when other factors such as size of banks, capital adequacy, and macroeconomic.

Another key feature that can also prove crucial in this case is perhaps the Number of women among the members of the board of directors, that is, the Number of women among the members of the board of directors or in relation to the number of women in the commercial bank. As proposed by Michael C. Jensen and William H. Meckling in the Agency Theory, women's presence in corporate governance ensures board monitoring because of their higher attendance, supervision, and diligence Resource dependence theory by Pfeffer & Salancik (1978) indicates that women directors have special qualities which improve strategic decisions through bringing particular skills, experience, networks, and stakeholder communication abilities to boards. Critical mass theory by Kanter (1977) stresses the importance of women's influence on corporations becoming substantial once there are at least three women on boards.

It appears that there is strong empirical evidence of the importance of the contribution made by women directors towards financial success of companies. In particular, Carter et al. (2003), Campbell & Mínguez-Vera (2008), and Erhardt et al. (2003) have found a significant increase in profitability measures such as ROA, ROE, and overall business value, whereas studies focusing only on the banking industry such as García-Meca et al. (2015), Owen & Temesvary (2018), and Gulamhussen et al. (2017) show a clear connection between diversity among directors and increased bank

Even though such studies exist, other research shows positive yet statistically insignificant correlations especially under conditions where female participation is restricted. Rose (2007),

Marinova, Plantenga, & Remery (2016), and Pathan & Faff (2013) showed that while there was a connection between performance and gender diversity, it was inconsistent and not significant enough for further use. At the same time, too much monitoring by women can lead to a decrease in company's effectiveness since too much precaution in the decisions will be exercised in the presence of good corporate governance. This phenomenon can be observed at regulated institutions, which suffer performance decline from imposed diversity as a result of inexperienced members (Ahern & Dittmar, 2012; Matsa & Miller, 2013) The empirical study done in Ethiopia revealed a steady increase from mostly positive but insignificant effects in earlier studies to significantly positive effects in more recent literature. In earlier works (Alemu, 2015; Tadesse, 2016; Getachew, 2019), the presence of female directors was found to have a positive but insignificant effect on ROA, ROE, and NIM due to factors such as underrepresentation of females, cultural barriers, uniform regulation across different companies, and small sample sizes. On the other hand, in more recent studies (Bekele, 2020; Mesfin & Tesfaye, 2021; Abebe, 2022; Worku & Kebede, 2023; Tsegaye, 2023), the effect of female directors has been found to be significantly positive on ROA, ROE, NIM.

Bank size impacts a banking institution's operations, governance, risk, financial performance, and regulatory factors. It serves as an independent factor affecting performance and moderates governance mechanisms. The relationship between bank size and performance indicators shows a negative correlation with ROA, ROE, and profit margin, with significance mainly observed in profit margin. (Rajendran, 2012) explored the link between corporate governance practices and firm performance. Other literature indicates that an inverse relationship Have found a significant increase in profitability measures such as ROA, ROE and NIM ,overall business value, whereas studies focusing only on the banking industry such as (Ashenafi et al. 2015 ; Hafez, 2015).

2.3 Summary of Literature Review and Identification of Research Gap

2.3.1 Summary of Empirical Literature

The empirical literature reviewed in this chapter reveals that relationship between corporate governance mechanisms and financial performance is highly context specific and far from conclusive.

Theoretically the study is grounded in Agency Theory, Stakeholder Theory and Resource Dependency Theory, all of which posit that robust governance structure should enhance firm

performance by reducing information asymmetry, aligning managerial interests with shareholders and providing critical external resources.

However when examining the empirical evidence a clear pattern of mixed and contradictory findings emerges across different contexts. First, Demographics refers to the effect of management team different factors (Gender Diversity, Position of Respondent, Educational Qualification and Year of Experience) on the financial performances of a given banks (Adams et al. (2007), Rose (2007), Singh (2008), Ebiad (2009), Belete Zegeye (2015) .(Jensen et al,(1976),Creswell (2014), Saunders et al, (2019), Tadesse et al. (2019), Abate (2020). (Ferreira, D. (2010), Gantenbein et al (2011), Poon et al (2013), (Becker, G. S. (1964), Jensen et al (1976), Pfeffer (1978), Ujunwa, A (2012), Huang, S (2013), Minton et al (2014), Moon, S (2021). Second Internal corporate governance mechanism refers to the inside impacts of different factors (Board Meeting , size of the board of directors, size of the bank, Existence of sub-committee, Total Meting per Year, Experience on Financial Sector, Bank Age ,Size of Bank and Number of Female Directors) on the financial performances of a given banks (Yermack, 1996; Chung, Wright, & Kedia (2003) and Hutchinson & Gul, 2003; Yung, 2009; Park, 2009; Rajendran,2012 ; Kemaly et al, 2013), All demographic and internal corporate governance mechanism have an effect on the financial performances of a bank measured by ROA, ROE, and NIM.

2.3.2 Research Gap and Justification

Based on the synthesis of the above literature, this study identifies the following critical research gaps that justify the current investigation Gap analysis: Compared to the previous scholars (Berle & Means, 1932; Ajoa, 2014, Peters & Bagashaw, 2014), the current study had similar theoretical foundations as both of us used Agency Theory, Stakeholders' theory, and resource dependency theory as a guideline. However, this study was unique due to the following reasons:

Multivariate dependent variables: In its nature, contrary to the previous scholars (Ahenafi et al., 2013; Beyene et al 2013; Kokeb, 2017) who have been thoroughly studied the effects of corporate governance on financial performance measures (ROA and ROE variables only), this study has widened the dependent variable by focusing on the outcome effect of corporate governance mechanism on additional variable (NIM) that makes this study unique.

In- depth retrospective analysis: Another uniqueness of this study was that while previous scholars like (Ahenafi et al., 2013; Beyene et al 2013; Kokeb, 2017) who used a study period

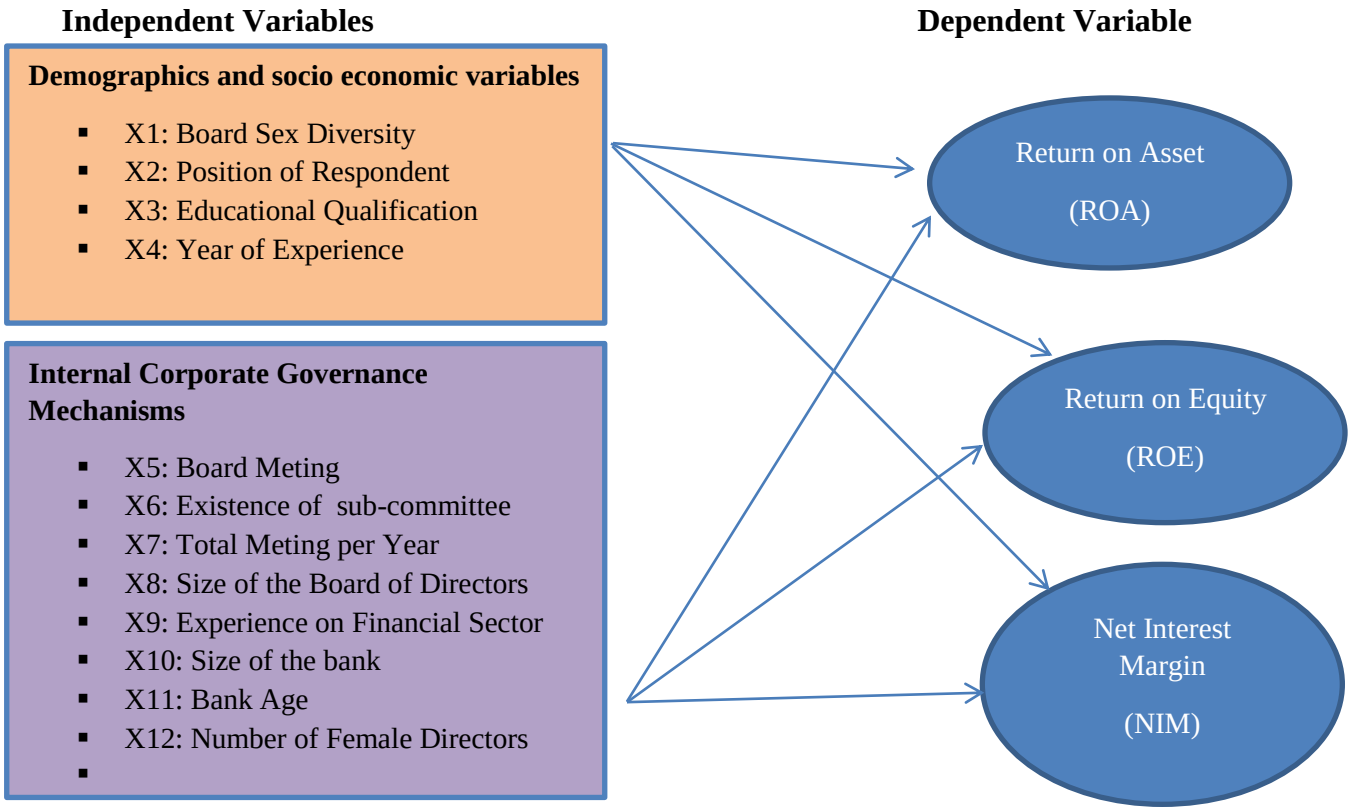
only from 5-10 years, the current study has analyzed an in-depth retrospective panel data for a total of 14 years from 2010-2023 GC that enabled the researcher to identify the root causes and proposed recommendations for immediate actions.

Methodological similarities: While the previous scholars used panel data, binary logistic regression, and linear regression models, the current study used a combination of Panel models (fixed effect and random effect models) models to see the effects of the corporate governance mechanisms on financial performances of 10 commercial banks.

2.4 Conceptual framework

The return on assets (ROA), return on equity (ROE) and the net interest margin (NIM) where used to measure the banks' financial performance while the independent variables are the corporate governance indicators which are the demographic and internal corporate governance mechanisms related variables. Hence, based on the above review, the following conceptual framework of the study was developed (Fig 1)

Fig 1: Conceptual framework of the Study



Sources (Eulerich and Velte, 2017; Shehata et al,2017; Talavera et al ,2018)

Table 1: Description of variables: Based on the above empirical reviews, the following description of variables and hypothesis was made:

A	B	C	D	E	F	G	H	I
S/N	**Variable name**	**Variable code**	**Variable type**	**Value**	**Expected sign**	**References (Previous studies)**	**Current variables and justification**	
		Definitions of Dependent variables					**Definitions of dependent variables**	
Y1	ROA	Y=1	Continuous				ROA	Because the title of the study is about financial performance
Y2	ROE	Y=2	Continuous				ROE	
Y3	NIM	Y=3	Continuous				NIM	
		Definitions of Independent variables					**Definitions of independent variables**	

A	**Demographic, and socio economic variables**						**Demographic, and socio economic variables**	
X1	Board Gender Diversity	BGD	Categorical	1 if independent otherwise 0	+/- ROA. ROE, NIM	Adams et al. (2007), Rose (2007), and Singh(2008) positive and Rose (2007) and Belete Zegeye (2015) negative	X1:Board Gender Diversity	Went to examine its effect in the commercial banks in Ethiopia
X2	Position of Respondent	PR	Continuous	1 respondent position and 0 otherwise	+/- ROA. ROE, NIM	Tadesse, (2019) and Abate,(2020) negative and Jensen et al (1976) positive	X2: Position of Respondent	
X3	Educational Qualification	EQ	Continuous	1 if exist and 0 otherwise	+ ROA. ROE, NIM	Ferreira,(2010) .positive	X3: Educational Qualification	
X4	Year of Experience	YE	Continuous	1 if exist and 0 otherwise	+ ROA. ROE, NIM	Various Author S&P composition negative and Minton et al (2014) Ujunwa (2012) positive	X4: Year of Experience	
B	**Internal corporate governance mechanism**						**Internal corporate governance mechanism**	
X5	Board Meting	BM	Categorical	1 if independent otherwise 0	+/- ROA. ROE, NIM	Vafeas(1999) Adams & Mehran(2012) Ntim&Osei(2011) Zewdu(2019) Simeneh (2024) positive, Jensen (1993) Vafeas (1999) Amare et al. Negative	X5:Board Meting	
X6	Existence of sub-committee	ESC	Dummy	1 if exist and 0 otherwise	+/- ROA. ROE, NIM	Romano et al, (2012)Bussoli (2013) Hlanganipai & Godfrey (2014) Ranjendran (2012)positive or Hlanganipai & Godfrey (2014) negative	X6: Existence of sub-committee	
X7	Total Meting per Year	TMPY	Discrete variable	1 determinant and 0 otherwise	+/- ROA. ROE, NIM	Vafeas (1999) Abor & Biekpe (2007) Adams & Mehran (2012) Ayele (2017) positive Uwuigbe (2011)	X7: Total Meting per Year	

						Pathan & Faff (2013) Alemu (2015) Tadesse (2016) Getachew (2019) Negative		
X8	Size of the board directors	SoB	Continuous	1 =if bid size and 0 otherwise	+/- ROA. ROE, NIM	Dalton etal (1998), Wange (2001), Balkir 92009) Positive Ashenafi etal (2013) , Kokeb (2017) Negative	X8:Size of the board directors	
X9	Experience on Financial Sector	EFS	Discrete variable	1= if the Experience on Financial Sector and 0 otherwise	+/- ROA. ROE, NIM	Anres & Vallelado (2012) ,Aebi et al (2012) Positive Uwuigbe (2011), Alemu (2015) Tadesse (2016) Getachew (2019) Negative	X9:Experience on Financial Sector	
X10	Size of the banks	SB	Continuous	1 if bank size 0 otherwise	+ ROA. ROE, NIM	Ashenafi et al, (2013) positive Rajendran, (2012) negative	X10:Size of the banks	
X11	Banks age	BA	Continuous	1 if long years of experiences and 0 otherwise	+ ROA, ROE, NIM		X11:Banks age	
X12	Number of Female Directors	NFD	Categorical	1= if Number of Female Directors affect and 0 otherwise	+/- ROA. ROE, NIM	Carter et al(2003), Campbell et al (2008), Erhardt et al(2003), Garcia et al(2015) Owen (2018) Bekele(2020),Mesfin & Tesfaye (2021)Aebe(2022)Worku &Kebede(2023) Tsegaye (2023) Positive Rose(2007) Marinova et al (2016) Pathan et al (2013) Ahern & Dittmar (2012) Matsa& Miller(2013) Alemu (2015) Tadesse (2016) Getachew (2019) Park , (2009), negative	X12: Number of Female Directors	

Source (Eulerich and Velte,(2017); Talavera, Yin, and Zhang(2018);

Chapter Three

3 RESEARCH METHODOLOGY

3.1Research philosophy of the study

This thesis has adhered itself to the pragmatist philosophical worldview, this pragmatist stance is justified on the grounds that the research problem addressed in this study cannot be adequately understood through a single paradigm alone. On the one hand, a positivist orientation is appropriate because the dependent variables, namely ROA, ROE, and NIM, are objectively measurable financial indicators drawn from audited bank annual reports and National Bank of Ethiopia publications, and the relationships between these indicators and corporate governance mechanisms are tested through statistically verifiable panel data regression models under the fixed and random effects specifications, consistent with an objective and quantifiable view of reality (Creswell, 2009; Saunders et al., 2019). On the other hand, elements of a constructivist orientation inform the interpretation of the regression findings, since the practical meaning of the governance-performance relationships observed in the ten sampled commercial banks and the oligopolistic structure of the industry, and cannot be fully understood through numerical results alone. Adopting a pragmatist worldview therefore allows the study to combine the objectivity and rigor of quantitative measurement with a context-sensitive interpretation of what the statistical results mean for corporate governance practice in Ethiopian commercial banks. Thus, with such philosophical worldview or a combination of quantitative and qualitative research methodologies, this study has captured a full picture of the *"Effects of Corporate Governance Mechanisms on financial Performance of 10 Commercial Banks in Ethiopia"*

3.2 Approaches of the Study

Building on the philosophical view of a research, there are three approaches used conduct a research: quantitative, qualitative and mixed methods (pragmatisms) that were commonly used by researchers in various research studies. Hence, in the case of the current study the researcher used quantitative research approaches. The reason was dependent variables / financial performance of the study, ROA, ROE and NIM, are meager in numerical values.

3.3 Designs of the study

Broadly, this study has employed quantitative research approaches In terms of quantitative designs, cross-sectional research design take place at a single point in time (Kothari, 2003; Trochin, 2005; Tariku, 2012). In this regard, the current study has conducted at a single point in time (May 2025 to May 2026). Thus, the research design of this study was micro-level cross-sectional design. Furthermore, because using descriptive statistics (indices, frequency, percentage, and mean) the study has established the "descriptive profile" (Verma & Beard, 1981; Trochin, 2005; Tariku, 2012) of the study area, descriptive research design was used for the same.

To study the causal relationship between independent variables (demographic and internal corporate governance mechanisms) and dependent variable (financial performance: ROA, ROE, and NIM), explanatory or causal research design was another research design of this study. Because, with explanatory or causal research design, using econometric analysis (Panel regression fixed effect regression model and random effect regression model) the current study has explained and established causal relationships among the effect of corporate governance on financial performance of selected 10 Commercial banks in Ethiopia.

3.4 Data and data sources

The study is based on secondary, quantitative panel data covering ten sample commercial banks in Ethiopia over the period from 2010 to 2023.Two categories of variables were extracted to address the specific objectives of the study, namely financial performance variables and corporate governance variables. Data on the financial performance variables, that is, return on assets (ROA), return on equity (ROE), and net interest margin (NIM), were obtained from the audited annual financial statements of the respective banks and the annual reports and directives of the National Bank of Ethiopia (2010–2023). Data on the corporate governance variables, that is, board size, board composition, gender diversity, board meeting frequency, board members' education level, and board members' experience, were obtained from collected directly from study participant.

3.5 Population, sample size determination, and sampling techniques

The population of this study was all commercial banks operating in Ethiopia under the regulatory

control of National Bank of Ethiopia (NBE) from 2010-2023. The sample was selected using purposive sampling technique. Therefore, only banks that satisfy the following conditions were selected: first the bank was licensed and operating uninterruptedly during the period 2010-2023; second the bank published complete audited financial statements and corporate governance reports every year; finally the bank data was available through the NBE or bank archives. Based on these criteria, a final sample of 10 commercial banks was selected. The panel data structure has observations of 10 banks over 14 years (2010–2023), which yields [10 × 14] 140 bank-year observations for analysis.

3.6 Methods of Data Collection

The current study has used mixed data collection tools. That is, for quantitative data this study employed survey questionnaires (closed-ended and open-ended) that was developed for the respondents to collect primary data related to research questions. Once, the survey tools were developed. In this case, Cronbach's Alpha/ coefficient for the whole items was computed, and found as 0.70. However, with the qualitative data collection tools (Key Informant Interview and desk review checklists), this study has conducted content validity analysis through thesis advisor, friends having knowledge on the subject matter, and related expertise's who have conducted similar study.

3.7 Data analysis, model specifications, and support software

For each specific objective, these sections of the thesis used the following data analysis techniques:

A. Quantitative data analysis techniques

1. In response to the current status of the financial performance of the 10 commercial banks in Ethiopia, this study has employed descriptive data analysis techniques.
2. To examine the effect of demographic characteristics of board members, determine the effect of internal corporate governance mechanisms, and identify the most significant corporate governance factors affecting the financial performance of commercial banks in Ethiopia, the current study used panel data analysis; (fixed effect and random effect) regression model concerning the quantitative software, this study used latest versions of SPSS and STATA software.

Chapter Four

4 RESULTS AND DISCUSSIONS

4.1. Demographic and Socioeconomic characteristics of respondent

4.1.1. Cross tabulation of the years of establishment, sex and qualification by name of the banks

Table 2: Cross tabulation of the years of establishment, sex and qualification by name of the banks

SN	Variables		AIB	BIB	BOA	CBE	CBO	DB	HB	LIB	WB	ZB	Total
1	Year of establishment		1994	2009	1906	1942	2005	1995	1998	2006	1997	2008	
2	Sex	Female	2(40%)	2(40%)	3(60%)	2(40%)	2(40%)	2(40%)	2(40%)	2(40%)	2(40%)	2(40%)	21(42%)
		Male	3(60%)	3(60%)	2(40%)	3(60%)	3(60%)	3(60%)	3(60%)	3(60%)	3(60%)	3(60%)	29(58%)
		Total	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**50**(100%)
3	Qualification	Dip	-	-	-	-	-	-	-	-	-	-	-
		Degree	-	2(40%)	2(40%)	-	2(40%)	2(40%)	-	-	2(40%)	-	8 (16%)
		MA/SC	5(100%)	4(80%)	4(80%)	5(100%)	4(80%)	4(80%)	5(100%)	4(80%)	3(60%)	5(100%)	43(86%)
		PhD	-	-	-	-	-	-	-	2(40%)	-	-	2(4%)
		Total	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)

Source: Own Computation of Survey Results (2026)

Below is a detailed analysis of the given data table regarding the organizations Awash International Bank, Bank of Abyssinia, Berhan International Bank Sc, Commercial Bank of Ethiopia, Coperative Bank of Oromia, Dashen Bank, Hibret Bank S.C, Lion International Bank, Wegagen Bank and Zemen Bank Sc, relating to formation years, gender ratio, and levels of employee qualification.

As the passage of the year progresses, a company becomes experience, facing challenges, and accomplishing the social responsibility after the passage of a year, as stated by Pollet, 2009). The age of the company plays an important role as a determinant of the company's performance as stated by Curran et al., 1993). Young companies are much profitable and growing as compared to large companies, as they are able to produce new jobs, realize local growth, generate innovative ways of work, and train workers, but Long-living firms, with pooled resources, ample experience, good reputation, and substantial information, are able to face difficulties effectively

and perform well, as stated by Pollet, 2009). The age of the company plays an important role as a determinant of company performance as stated by Curran et al., 1993).

In relation to the age of establishment, banks such as Bank of Abyssinia (BOA) have been studied for their establishment dates, ranging from 1906 to 2009, including banks and Brihan International Bank (BIB). The year of establishment is a key determinant or factor in the banking sector, which is typically the image or perception of the bank among the corporation, the market, and the general public. The year of establishment of the bank has been shown to influence its performance, risk, and adaptation to new technologies such as the Internet (Berger et al., 2005). Established banks may provide banking services on a voluntary basis, while new banks are more likely to be innovative and bold market players (Al-Tamimi & Al-Amiri, 2003).Based on this data, Age Profile of Banks categorized by three levels:

The oldest banks (before to 1950) are the Commercial Bank of Ethiopia and the Bank of Abyssinia. These banks have a long history, which suggests that they are more stable and firmly established in the financial system. Because of the banks' lengthy histories, their clients are able to develop significant trust, which enables them to build robust infrastructures.

The Mid-Range Banks (1950-2000) AIB bank founded in 1994, DB bank founded in 1995, WB bank founded in 1997, and HB bank founded in 1998 are an example of mid-range banks, which are founded during a period of liberalized markets, so they are likely to create their position effectively amidst the rapidly changing atmosphere.

The mid-range banks have managed to face the “Liability of Newness” effectively, as presented by (Stinchcombe, 1965) as they are sufficiently large and strong brands so as to compete effectively with large banks, while they are capable to handle their operations effectively, while

The mid-range banks, due to their longstanding operations, are able to create efficient internal procedures effectively related to credit risk assessment and government compliance, so as to acquire strong expertise related to credit risk assessment as well as government regulation, as presented by Kumar & Pani, 2021. In addition The mid-range banks, as they are operating effectively for a period of decades, so they are likely to acquire a strong resource base, including capital, efficient workers, as well as branches, on this, they are likely to acquire strength and resilience around economic shocks as well as strong abilities to invest effectively in large-scale projects due to their strong resource base, as presented as presented by (Zuo et al, 2020).

The other Newer Banks, Banks founded after (2000) It may be noted that ‘challenger banks or ‘digital banks' are often type infield as banks founded by newcomers to banking” – they are often characterized by unburdened legacy, so they are capable to create their positions effectively by adopting an aggressive and technology-based approach. Based on this, they are likely to create strong customer trust due to their longstanding histories, so they are likely to secure deposits effectively, as presented by Mishkin, 1999.The scenario – Challenges of Legacy Systems While the older banks have various advantages, they are also facing challenges related to their legacy systems and bureaucratic processes, which may slow their pace to innovate and keep up with new technological developments (Bharadwaj et al., 2013). At Competitive Dynamics, newer banks, which are unaffected by legacy, are able to execute novel strategies that enable differentiation even as the market undergoes rapid shifts. They are consequently better positioned to capitalize on technological developments as well as a changing customer base.

Sex Distribution by Bank this analysis, by studying the 50 participants by sex, shows various patterns that will help us comprehend gender dynamics among the 10 selective Ethiopian banks.

The gender distribution as a whole reveals 58% males and 42% females. The slight dominance by the male gender could be due to the trend seen among various sectors, including leadership positions in the banking industry.

Distribution by Bank Male Majority (8 Banks) Eight out of the ten banks (AIB, BIB, CBO, DB, HB, LIB, WB, and ZB) show a 3:2 ratio respectively favoring the male gender, Female Majority two Banks While the Bank of Abyssinia (BOA) and the Commercial Bank of Ethiopia (CBE) show a 2:3 ratio favoring the female gender, Gender Gap in Leadership There is a body of research that shows, despite the strong representation of females at the entry level, there is a glaring lack of female representation at the senior levels of an organization, as stated by Sahay et al. 2017. It has been proposed that gender makes a difference in adopting banking technology, with a greater potential among males toward adopting technology in banking services. Such a difference affects the development as well as promotion of financial services or products (Amin et al., 2006; Akinci et al., 2004).

Theory of Gendered Organizations Acker's theory argues that gender inequalities are reproduced by organizations as a natural part of their structure and processes, proposed by (Joan Acker in 1990). The ratio could imply that there are informal quotas that are set to create a balanced gender representation but could end up creating an impression of tokenism.

Glass Ceiling Effects The apparent gender equality does not consider inequalities seen at the hierarchical levels. Men could hold senior positions, while women are predominantly found at lower or supporting roles (Cotter et al., 2001). Further studies should examine job titles and descriptions to identify hidden glass ceilings.

The gender breakdown among the participants shed light on an obvious preponderance of the dominant gender in the Ethiopian banking industry, as well as exceptions among the senior, government-linked banks. The significance of this information should never be underestimated, as understanding the dynamics involved is vital to building an efficient gender diversity program and a better work environment. Further studies could examine how gender affects organizational values, worker satisfaction, and performance, among other aspects, as well as gender barriers to promotion among bank workers.

The academic qualification levels among the employees of the banks involved show a high level of academic qualification among the employees. It should be noted that 87% of the ordinary circulating members hold a Master's degree, 12% a Bachelor's degree, 1% a PhD, and none among the members hold a Diploma degree qualification. The results show a high concentration of academic qualification among the members, with a bias towards a Master's degree level among the banks' employees.

This type of education system, which signals a rich knowledge-based organizational setting, also imposes a qualification ceiling by suppressing diversity in academicals backgrounds. Based on Human Capital Theory by Becker (1964), firms focusing on advanced credentials are likely to build a particular type of human capital, which has strong ambitions in analytic and managerial capabilities rather than technical expertise.

The overrepresentation of workers with a Master's degree may pose problems related to over qualification. Endogen & Bauer (2009) show that a lack of fit between the skills and abilities of workers and their job requirements could create problems related to job satisfaction and turnover intention. It can be perceived that the banking network, as stated, may lack jobs that could effectively tap the potential of people with a Master's degree or a PhD.

The lack of Diploma-level workers shows a vacancy in the structure of the workforce hierarchy. The absence of a middle level comprising technically qualified or entry-level workers may result in the involvement of top-notch workers in operational work at a lower level of their specialization. It will not only increase labor costs, as mentioned by Boxall & Purcell, 2011, but

will also reduce the operational efficiency level. Boxall & Purcell, 2011, further stated that a multilayered talent pipeline should be established.

The data also show that out of all the employees, just one has a PhD, implying a lack of investment by the institutions in specialized research and development roles. Strategically, a low number of professionals with doctoral-level expertise may limit innovation, policy know-how, and long-term strategy development, which could be a drawback when the banking sector is becoming increasingly knowledge-based (Nonaka & Takeuchi, 1995).

The varying educational composition among banks reveals nuanced institutional forces at play. It is likely that banks like AIB, CBE, HB, and ZB, which have all or the vast majority of their workers holding a Master's degree, have better analytics skills and innovation capacity in service delivery. Alternatively, the minutely 'more diverse' composition among WB workers could allow a greater degree of cognitive fit, but may also ensure varying professional strength and technical expertise among workers. The lone PhD degree among LIB workers is likely a carefully crafted approach to research or policy roles, as opposed to others, in their operational strategy and handling of knowledge. A higher level of education is often related to a strong level of financial literacy, analysis, and decision making skills (Lusardi & Mitchell, 2014). Employees with a PG level of education are thus better positioned to handle complex financial products, a changing regulatory framework, as well as intricate customer demands. The less extensive representation of lower levels of education, such as Diploma or undergraduate-only employees, will have a bearing on this, as a broader interpretation may be deficient in experiential or operational subtleties characteristic of other organizational levels, as a degree of uniform education will, although an advantage in analysis, create a deficit of differing expertise.

4.1.2. Cross tabulation of positions, Work experience, and board membership by name of the banks

Table 3: Cross tabulation of the positions, Work experience, and board membership by name of the banks

SN	Variables		AIB	BIB	BOA	CBE	CBO	DB	HB	LIB	WB	ZB	Total
4	Position	Chief executive officer	-	-	-	-	-	-	-	-	-	-	-
		Board secretary	1(20%)	1(20%)	1(20%)	1(20%)	1(20%)	2(40%)	1(20%)	1(20%)	1(20%)	2(40%)	12(24%)
		Middle level management	2(40%)	2(40%)	2(40%)	4(80%)	2(40%)	3(60%)	2(40%)	4(80%)	2(40%)	2(40%)	25(50%)
		Supervision	2(40%)	2(40%)	2(40%)	-	2(40%)	-	2(40%)	-	2(40%)	1(20%)	13(26%)
		Total	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	5(100%)	50(100%)
5	Years of experience	< 3 years	-	-	-	-	-	-	-	1(20%)	-	2(40%)	3(6%)
		3-5 years		1(20%)	-	-	-	1(20%)	1(20%)	-	-	-	3(6%)
		5-10 years	1(20%)	1(20%)	2(40%)	2(40%)	3(60%)	2(40%)	2(40%)	2(40%)	2(40%)	1(20%)	18(36%)
		?10 years	4(80%)	3(60%)	3(60%)	3(60%)	2(40%)	2(40%)	2(40%)	2(40%)	3(60%)	2(40%)	26(52%)
		Total	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**50**(100%)
6	Board meeting	Yes	1(20%)	1(20%)	1(20%)	1(20%)	1(20%)	2(40%)	1(20%)	1(20%)	1(20%)	2(40%)	12 (24%)
		No	4(80%)	4(80%)	4(80%)	4(80%)	4(80%)	3(60%)	4(80%)	4(80%)	4(80%)	3(60%)	38 (36%)
		Total	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5**(100%)	**5(100%)**

Source: Own Computation of Survey Results (2026)

This represents a comprehensive analysis of the cross-tabulation table drawn from a survey of 50 banking professionals across ten different banks, namely: Awash International Bank, Berhan International Bank, Bank of Abyssinia, Commercial Bank of Ethiopia, Coperative Bank of Oromia, Dashen Bank, Hibret Bank, Lion International Bank, Wegagen Bank, and Zemen Bank. The sampling methodology was balanced, as it had five respondents from each bank, culminating into a sample size of 50. Three critical organizational variables are focused on in this analysis: professional Position, Work Experience, and Board Meeting Membership (attendance).

The Positions levels among the employees Chief Executive Officer, in numbers is none, Board Secretary is 24%, Middle Level Management is 50% and Supervision is 26%, out of 50 respondents.

This majority represents the Implementation Layer of the banking sector's hierarchy. As observed in studies of strategic management (e.g., Wooldridge & Floyd, 1990), middle managers

are the vital link that translates the macro level, abstract strategies formulated by the executive board the Formulation Layer into concrete, micro-level operational tasks for the Supervisory level, the Execution Layer.

The high concentration here suggests that the subsequent findings from this sample will primarily reflect challenges, successes, and perceptions related to the following, Strategic Translation and Alignment How well abstract goals are converted into measurable operational Targets, Organizational Barriers the bureaucratic and structural impediments managers face in executing policy and Resource Allocation How resources are managed at the functional level. Without a formal CEO, let alone other C suite positions, this is a unique analysis because the researchers are able to detail the recipient's view of governance and strategy, rather than the creators view. As such it may signal the bottom-up perspective on organizational effectiveness.

The Board Secretary Position accounts for 24% of the sample. Though technically an administrative and governance support role, in the corporate governance literature, it is universally recognized that this position has considerable informal power. The Board Secretary is with responsibility for ensuring regulatory compliance, managing board logistics and critically the flow of information between the executive management team and the board of directors (Mallesons Stephen Jaques, 2009). Proximity to strategic and operational matters makes their inclusion imperative but again any bias due to high representation of this role in a sample dominated by line management must be considered. They are the structural mechanism that bridges the board (governance) to this management sample (operations).

Although most banks follow the same positional composition Awash International Bank, Berhan International Bank, Bank of Abyssinia, Coperative Bank of Oromia, Hibret Bank, Lion International Bank, Wegagen Bank all follow a 1 Secretary, 2 Middle Management and 2 Supervision distribution, two banks show great structural variance.

Commercial Bank of Ethiopia and Lion International Bank These banks have the highest concentration of Middle Management (4 out of 5 respondents). This intense focus may indicate that these institutions are either placing a heavier research focus on their core functional

leadership, or that their organizational structure is flatter, granting middle managers more comprehensive responsibility.

Dashen Bank and Zemen Bank These two banks have a deviation in their Board Secretary representation, with 2 each and Supervision Dashen Bank 0, Zemen Bank 1. having two Board Secretaries suggests that these organizations may Be larger organizations that require the existence of a dual secretary arrangement, such as a Corporate Secretary supported by an Assistant Secretary. Utilize a data collection approach that sampled the governance department more intensely. Have a more mature governance model, which involves sharing administrative oversight of board meetings. This might exclude the frontline execution perspective of this bank, as there were no respondents to represent Supervision in Dashen Bank.

Based on the years of experience a majority of the respondents 88 % reported that they had over five years of work experience; 52 % reported that they had worked for ten years or more.

According to the Human Capital Theory, (Schultz, 1961; Becker, 1964,) education, training, and experience are an investment that realizes productive returns. In a bank setting, for example, the large proportion of 10 years of experience reflects enormous institutional investments in human capital.

Tacit Knowledge-Polanyi (1966): Most of this experience would be codified as deep, intuitive know how, hard to formalize or even transfer, which is crucial in making complex decisions, especially in risk assessment and in the building of relationships with clients. Stability and Reliability: Long tenure usually means low turnover of employees, which is very important for maintaining internal controls and regulatory compliance as well as ensuring continuity in the provision of service. In fact, Mishra et al. (2011) assert that a high level of tenure guarantees such an outcome. Cognitive Depth Experienced professionals can generally handle ambiguity and complexity better to arrive at superior judgment during turbulent market conditions. While experience is strength, organizational behavior literature also warns against the negative impact of high experience, for instance, in implementing new strategies, For example, too lengthy tenure may bring about resistance to change or strategic inertia, whereby these deeply ingrained

routines and cognitive models impede the implementation of new technologies or disruptive business models (Hannan & Freeman, 1984).

Representation from <5% years' experience is only 12%, which indicates limited influx of newer perspectives. This could mean no significant exposure to contemporary digital skills or disruptive industry trends, although the overall trend in experience is high, subtle variation characterizes the banks, Most Experienced The clear outlier here is Awash International Bank, which reported 80% of its respondents with 10 years of experience. It would thus appear that Awash International Bank probably has the deepest pool of sector-specific long term expertise in this sample.

Newer Talent: Only two respondents with less than three years of experience were found in Lion International Bank and Zemen Bank. This could indicate a higher recent recruitment, fast expansion, or on the other hand may be higher turnover in junior management positions within those particular banks.

Based on bored meeting a full 76 % of the operational management samples do not attend board meetings, which aligns perfectly with 76% of the sample being Middle Management or Supervision.The congruence between the number of Board Secretary Respondents (12) and the number of respondents who attend Board Meetings (12) is not accidental, it is a structural indicator. It strongly suggests that in this sample, the Board Secretary is the only link between the strategic body the Board and the operational body the management.

This structure strongly illustrates a fundamental underlying conflict inherent in Agency Theory (Jensen & Meckling, 1976) wherein a principal agent problem exists between principals, namely shareholders/the Board, and agents of management.

The absence of direct involvement of the board by operational management aggravates adverse selection-the Board may choose strategies with incomplete information-and moral hazard-management may favor personal goals or short-term operational ease over long-term strategic integrity, in a situation when it is well aware that the Board lacks full, firsthand visibility.

A structure of this type has to rely heavily on formal reporting, audits, and compliance mechanisms to control the agents; thus, agency costs-the amount of resources spent in aligning managerial actions with shareholder interests-are high.

This deep, tacit knowledge of operational reality, owned by 88% of the experienced managers, passes through a governance filter in control of the Board Secretary function. In this filtering process, the potential for suppression of dissenting views, critical operational intelligence, or emerging risks not visible other than on the front line may result in suboptimal strategic decisions at the board level. (Fama & Jensen, 1983)

Most of the banks follow the 1% "Yes" and 4% "No" pattern, reflecting one Board Secretary and four operational managers. Again, however, the deviations in Dashen Bank and Zemen Bank are critical.

Dashen Bank and Zemen Bank: In both banks, 2 respondents are reported to have attended board meetings whereas 3 did not attend. Since the positions table also showed 2 Board Secretaries for these banks, this is further confirmation that the sample structure itself is institutionally variable.

Institutional Theory Implications (DiMaggio & Powell, 1983) Thus, one can imply from this that eight of ten banks having one Board Secretary/Attendee indicate a high degree of Institutional Isomorphism, or a tendency of organizations facing similar environmental pressures say, banking regulation and market dynamics-to adopt similar structures.

The deviation in DB and ZB may indicate, Dual-Board Structures Some operate under a two-tiered board model, such as Supervisory and Management Boards, and would have multiple secretariat roles interfacing with them. Scale and complexity some banks may be much larger or more complex and require shared governance.

This broad analysis encompasses the structure of the sample, synthesizes it with major academic theories such as Agency Theory, Human Capital Theory, and Organizational Theory, details bank-specific deviations, and concludes with the strategic implications of the governance structure observed.

The following provides a detailed explanation of what this cross-tabulation table shows, using established academic research in the areas of corporate governance, management, and organizational behavior.

This table shows the demographic and structural breakdown of the respondents, totaling 50, from 10 different banks, with an equal sample of 5 from each institution. In this analysis, cross tabulation of respondents is done by their professional Position, Years of Experience, and attendance at Board Meetings.

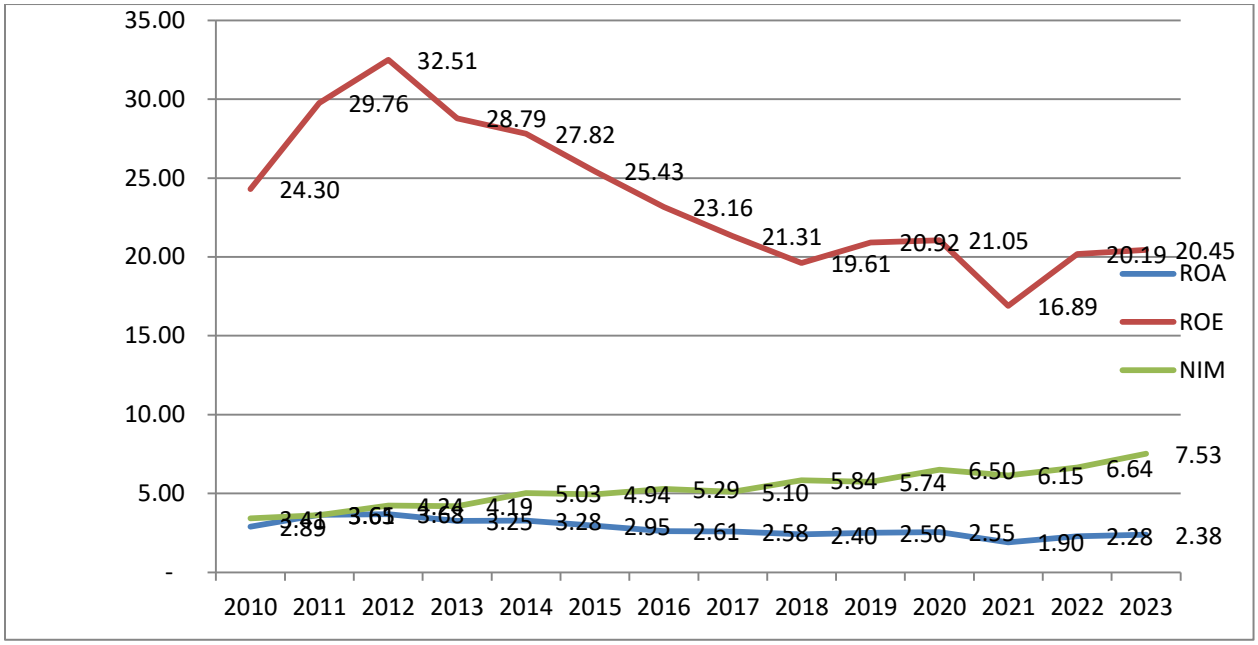
4.2. States of Aggregate mean of the financial performances of 10 commercial banks in Ethiopia for the period from 2010 to 2023

Table .4.Aggregate Mean ROA, ROE AND NIM (2010-2023)

Aggregate Mean (2010-2023)			
Years	ROA	ROE	NIM
2010	**2.89**	**24.30**	**3.41**
2011	**3.65**	**29.76**	**3.61**
2012	**3.68**	**32.51**	**4.24**
2013	**3.25**	**28.79**	**4.19**
2014	**3.28**	**27.82**	**5.03**
2015	**2.95**	**25.43**	**4.94**
2016	**2.61**	**23.16**	**5.29**
2017	**2.58**	**21.31**	**5.10**
2018	**2.40**	**19.61**	**5.84**
2019	**2.50**	**20.92**	**5.74**
2020	**2.55**	**21.05**	**6.50**
2021	**1.90**	**16.89**	**6.15**
2022	**2.28**	**20.19**	**6.64**
2023	**2.38**	**20.45**	**7.53**

Source: Own Computation (NBE, 2023)

Fig 2: ROA, ROE and NIM mean of the financial performances of 10 commercial



Source: Own Computation (NBE, 2023)

4.2.1 States of ROA Mean on the financial performances of 10 commercial banks

The overall **mean Return on Assets (ROA**) of the ten selected Ethiopian commercial banks displayed a generally decreasing trend throughout the study period from 2010 to 2023, although it was marked by a significant temporary peak that merits thorough contextual analysis. ROA serves as a vital measure of managerial effectiveness in utilizing assets for profit generation and holds a prominent role in the empirical banking literature as a dependable and commonly used indicator of overall bank profitability (Athanasoglou et al., 2008; Bourke, 1989; Molyneux & Thornton, 1992). ROA started at 2.89 in 2010 and steadily increased to peak at 3.68 in 2013, a trend indicating the strong profitability conditions in the early years driven by fast credit growth, a relatively underdeveloped and oligopolistic banking sector, and Ethiopia's ongoing macroeconomic growth during that time (Ayele, 2012; Admasu & Murthy, 2014; Girma, 2016). This initial upward trend aligns with Goddard et al.'s (2004) finding that banks in high growth, low competition settings typically experience better asset returns when the financial system deepens, as well as with Flamini et al.'s (2009) empirical evidence of higher ROA levels among Sub-Saharan African banks during initial phases of financial sector growth. Nevertheless, this crest turned out to be unviable. Beginning in 2014, ROA steadily declined due to structural

factors, falling from 3.25 in 2014 to 2.95 in 2016 and then to 2.40 by 2019. This extended decline illustrates a multi-faceted dynamic that is thoroughly recorded in the comparative banking studies. Initially, rising operational costs linked to rapid branch network growth diminished cost efficiency, a correlation extensively illustrated by Kosmidou (2008) and Pasiouras and Kosmidou (2007), who show that increases in non-interest expenses are among the most persistent detractors of ROA across various banking systems. Secondly, increased provisions for credit risk imposed extra burden on net income, aligning with Berger and DeYoung's (1997) foundational observation that declining loan quality produces a delayed yet notable impact on profitability, a trend further supported by Gizaw et al. (2015) within the Ethiopian framework. Third, inflationary tensions that escalated throughout the Ethiopian economy gradually diminished the actual returns on assets, a process proposed by Revell (1979) and empirically validated by Perry (1992) and Tan and Floros (2012), who show that although nominal interest earnings may increase alongside inflation, rising costs often outstrip revenue growth, narrowing profit margins. Fourth, and importantly in the Ethiopian regulatory landscape, the mandated NBE directed lending bill which required banks to dedicate a specific portion of their lending to acquiring low yield National Bank bills consistently redirected loanable resources from more profitable private sector lending, diminishing overall asset efficiency (National Bank of Ethiopia, 2015; Teshome et al., 2018; Abebaw & Mulatu, 2021). This regulatory framework is a structurally unique characteristic of the Ethiopian banking sector that sets it apart from the comparative contexts usually analyzed in the global banking profitability research (Kerebih & Rao, 2022). The Ethiopian banking sector had a time in 2022. The metric that measures how well the banks are doing hit its level of 1.90. This was the lowest it had ever been. It happened because of problems in the economy like the Tigray conflict not having enough foreign exchange and prices going up. This was stated in publications from the World Bank and the International Monetary Fund in 2022 and 2023. In 2023, things slightly improved. The metric went up to 2.38. This was because the economy was getting more stable after the conflict.. The Ethiopian economy still has some big problems that need to be fixed. If these problems are not fixed it is not clear if the banking sector will keep getting better.

Even though things are not great the banks in Ethiopia are still making some money. The mean ROA, which is a measure of how the banks are doing stayed above 2 for most of the time. This

means that the banks are still making some money even if they are not as efficient as they used to be. Some researchers like Girma, Worku, Yohannes and Hamdu have written about this.

The mean ROA for the banking sector over 14 years is about 2.61. This is actually pretty good compared to banks in Sub-Saharan Africa. The average mean ROA for these banks is between 1.5 and 2.0. Some other researchers like Flamini, Beck, Cull, Ongore and Kusa have written about this. The Ethiopian banking sector is doing well compared to banks in the region even though it has faced some big challenges.

This is similar to what has happened in developing countries. The size of the bank how capital it has the quality of its loans and how well it is run all affect how well the bank does. Some researchers like Athanasoglou, Dietrich, Wanzenried, Le, Ngo, Sufian and Chong have written about this. The Ethiopian banking sector is like banking sectors in developing countries in this way. The banks in Ethiopia are still making some money. They are doing well compared to other banks, in the region.

4.2.2 States of ROE Mean on the financial performances of 10 commercial banks

The overall average Return on Equity (ROE) of the ten selected Ethiopian commercial banks exhibited a distinct inverted-U-shaped pattern throughout the study period from 2010 to 2023, marked by a rapid and significant rise to a Recurrent, succeeded by an extended and fundamentally fixed downturn, along with a slight yet positive partial resurgence in the final years of the observation period (Goddard et al., 2004; Trujillo-Ponce, 2013). ROE is commonly viewed in banking profitability research as an essential measure of the returns produced on shareholders' invested capital, serving as Key indicator of financial performance for equity investors. It reflects not just the effectiveness of profit generation, but also the leverage strategies and capital structure decisions made by management in striving to maximize shareholder value (Berger, 1995; Molyneux & Thornton, 1992; Staikouras & Wood, 2004) The return on equity or ROE of the banking sector started at 24.30 in 2010 and then it went up a lot to 32.51 in 2012. This was the value for the return on equity that was seen during the entire time that the Ethiopian banking sector was being observed. The return on equity of 32.51 is a rate that puts the banking sector among the most efficient banking systems in the Sub-Saharan African region at that time.

The reason for this performance at the beginning was because of some very good things that were happening in the Ethiopian banking sector in the early 2010s. There were not banks to provide all the financial services that people needed. This meant that the banks that already existed could charge prices and make a lot of money from interest rates. Also the government did not allow many foreign banks to come into the country. This helped the local banks to make money because they did not have to compete with the foreign banks. The economy of Ethiopia was also growing fast at that time. This meant that people were borrowing money from the banks and the banks were making more money.

These things are what the theorists (Demirgüç-Kunt and Huizinga , 1999). They said that banks in countries where there is not a lot of competition and where the financial system is not very developed will make money. This is also what the researchers (Mirzaei et al.,2013). They said that the way the market is structured has an effect on how much money the banks make in countries that are still developing.

After 2012 the return on equity of the banking sector started to go down. It decreased to 28.79 in 2013, 27.82 in 2014, and 25.43 in 2015. The return on equity continued to decline, reaching 23.16 in 2016 and 21.31 in 2017. By 2019 the return on equity had gone down to 19.61. This was the level it had been at since the study of the Ethiopian banking sector began. The return, on equity or ROE of the banking sector was clearly going down over time. This ongoing reduction in equity returns signifies one of the most analytically important discoveries of the current research, and its structural foundations are complex and interrelated. Initially, the gradual increase of minimum paid-up capital requirements set by the National Bank of Ethiopia systematically broadened the equity base of commercial banks, effectively diluting the ROE ratio despite no decrease in absolute net profit levels a phenomenon aligned with Berger and Bouwman's (2013) theoretical and empirical assessment of how regulatory capital requirements alter the equity return characteristics of banking institutions, and with Bourke's (1989) foundational claim that well-capitalized banks consistently face reduced equity returns as their capital buffers grow in relation to risk weighted assets. The banking system in Ethiopia had a lot of private banks coming in during this time. This made it harder for banks to make money from lending because there was competition. The banks that were already there could not charge much interest as they used to. This is what happened in places too like what Claessens and his team

found out in 2001. They said that when there is competition in banking the banks make less money. (Mirzaei et al.,2013). They said that when there is competition banks in places like Ethiopia make less money. The National Bank of Ethiopia also had a rule that said banks had to lend some of their money to the government of to people or businesses. This meant that banks made money from interest. This is what (Teshome, 2018; Abebaw and Mulatu 2021; Kerebih and Rao, 2022). Banks in Ethiopia also had to open branches and hire more people to help all the new customers. This cost a lot of money. Meant that banks made even less money (Kosmidou ,2008; Pasiouras and Kosmidou, 2007). In 2020 things got a little better for banks. They made 21.05 returns on equity. Then in 2021 things got really bad because of the war in Tigray. The war made it hard for Ethiopia to get money and prices went up. Many people could not pay back their loans and businesses did not want to borrow money. This is what the International Monetary Fund said in 2022 (Kerebih and Rao , 2022; World Bank ,2023).

The war showed how much the banking system in Ethiopia depends on the whole economy being stable. Many people have found this out like (Athanasoglou et al., 2008; Dietrich and Wanzenried, 2011 Petria et al., 2015). They all said that when the economy is growing and stable banks make money. In the two years things have started to get better for banks in Ethiopia. In 2022 they made 20.19 return on equity and in 2023 they made 20.45. This shows that the banking system is slowly getting back to normal after the war. This is what (Dietrich and Wanzenried , 2014; World Bank , 2023). They said that Ethiopia is being careful to make sure its economy is stable, after the war. Despite the overall long-term downward trend, the average ROE consistently stayed above 20 throughout the entire 14-year study duration, indicating a banking sector that consistently provided significantly above-average returns to equity shareholders when compared to both regional and international benchmarks (Flamini et al., 2009; Staikouras & Wood, 2004; Petria et al., 2015; Vong & Chan, 2009). The thing that really stands out here is that Ethiopian commercial banks have been doing well for a long time. They are able to make a lot of money because they are working in a market. This market is growing fast and there are a lot of people who do not have bank accounts. The government is also playing a role in helping the economy grow. All of these things together have helped the banks to make money when things get tough.

These results are similar to what we see in countries where the economy is growing. In these countries the way the market works and how fast the economy is growing can really affect how well a bank does. It is not about how well the people in charge of the bank make decisions but also about the overall state of the economy. Ethiopian commercial banks have been able to do because of the way the market is set up and because the economy is growing. This is something that we see in places too, like what the researchers (Levine, 1997, 2001; Demirgüç-Kunt ,2001 ; Beck and Cull said in, 2014).

4.2.3 States of NIM Mean on the financial performances of 10 commercial banks

The Net Interest Margin or NIM was pretty low at 2.89 in 2010. Then the Net Interest Margin increased to 3.41 in 2011 and 4.24 in 2012. The Net Interest Margin kept going up to 4.19 in 2013 and 5.03 in 2014. The Net Interest Margin was 4.94 in 2015. After that the Net Interest Margin went up more to 5.29 in 2016 and 5.10 in 2017. The Net Interest Margin kept rising to 5.84 in 2018.

The Net Interest Margin trend was strong during the years with the Net Interest Margin reaching 5.74 in 2019 and 6.50 in 2020. The Net Interest Margin was 6.15 in 2021 and 6.64 in 2022. The Net Interest Margin was the highest at 7.53 in 2023. This is the level of the Net Interest Margin in the whole 14 years and it is more than 2.6 times the Net Interest Margin at the start in 2010.

The growth of the Net Interest Margin is really amazing. It makes the Ethiopian banking sector one of the fastest-growing. The Net Interest Margin grew for 14 years in a row during good and bad economic times. This means that the reasons for the growth of the Net Interest Margin are probably because of the system and structure not because of the economy. It is interesting that the Net Interest Margin kept going up. The Return on Assets or ROA and Return, on Equity or ROE kept going down. This is a paradox. It needs to be looked at closely to understand what is going on with the Net Interest Margin. The presence of increasing NIM and decreasing net profitability ratios suggests that the growing intermediation profits gained through expanded interest spreads were gradually consumed by rising cost pressures, regulatory impacts, and declines in asset quality affecting other areas of the income statement — a situation that significantly separates the path of gross margin from that of net profitability, bearing critical consequences for how policymakers and researchers understand financial performance metrics

from the Ethiopian banking industry (Abebaw & Mulatu, 2021; Kerebih & Rao, 2022). The persistent expansion of NIM throughout the analysis period can be understood by the interplay of various mutually supportive structural and macroeconomic factors. On the asset side of the balance sheet inflation in Ethiopia went up a lot during the study period. This forced banks to increase their lending rates, which in turn increased their interest income. Even though the real returns went down the banks still gained more from interest. This is what Revell (1979) said would happen in his study on inflation and banks. Perry (1992) and Tan and Floros (2012) also found this to be true in their studies.

Apart from the inflation and deposit-stickiness factors, the gradual changes in loan portfolio composition throughout the study period also significantly aided the noted NIM growth. The gradual transition in lending practices towards higher-yielding retail credit, financing for small and micro enterprises, and consumer loans areas that offer substantially wider spreads than the large corporate and trade finance products that previously dominated lending portfolios systematically enhanced the average yield on earning assets over time. This is in line with Kasman et al.'s (2010) findings regarding the margin-enhancing advantages of diversifying retail credit portfolios, and it aligns with Naceur and Goaied's (2008) evidence indicating that the composition of loan portfolios significantly influences net interest margin across North African banking systems. Moreover, the market framework of the Ethiopian banking industry which largely remained inaccessible to foreign banking competition during the research period and included a limited number of local private banks alongside the prevailing state-owned Commercial Bank of Ethiopia maintained some level of oligopolistic pricing authority, allowing for substantial margins even as competitive pressure slowly rose due to domestic new entrants (Claessens et al., 2001; Mirzaei et al., 2013; Angbazo, 1997). The empirical evidence from this study supports the theoretical prediction by Ho and Saunders (1981) that banks in markets with less competition tend to establish wider optimal margins. His key analytical insight is that although the NIM expansion was significant and consistent, the increases in gross intermediation income were progressively and thoroughly countered by rising costs and earnings pressures affecting other areas of financial performance in these institutions. Increasing operating costs mainly due to the rapid expansion of the branch network, rising personnel expenses, and necessary technology investments created a growing non-interest cost strain that took up a larger portion of gross interest income, aligning with the cost profitability correlation identified by

Kosmidou (2008) and Guru et al. (2002). At the same time, increasing credit loss provisioning mandates driven by the expansion of non-performing loan portfolios and tighter NBE provisioning regulations created a notable burden on net income that the NIM measure did not account for, aligning with the problem loans hypothesis of Berger and DeYoung (1997) and the findings of Iannotta et al. (2007) regarding the profitability impacts of declining asset quality. Moreover, and potentially most notably in the Ethiopian scenario, the compulsory acquisition of low-yield NBE government bonds through the directed lending policy imposed a structural earnings burden on bank financial statements that concurrently hindered ROA and ROE while having minimal impact on NIM which assesses the spread on interest generating private sector assets thus effectively increasing the gap between gross margin and net profitability metrics (Teshome et al., 2018; Abebaw & Mulatu, 2021; National Bank of Ethiopia, 2015). This distinction between NIM growth and net profitability decline closely aligns with results documented by Dietrich and Wanzenried (2011) for the Swiss banking system during times of increased regulatory changes, as well as by Bikker and Vervliet (2018) in their study of banking sector profitability in structurally tough operating conditions, indicating that the separation of gross margin from net profitability is a structurally recurring trend evident across The NIM trend outlined in this study indicates an Ethiopian banking sector where gross intermediation efficiency significantly and consistently improved throughout the observation period, influenced by a mix of inflation driven asset reprising, deposit stickiness on the liability side, shifts in portfolio composition, and structural market power, despite overall net profitability being concurrently squeezed by the effects of rising operating costs, declining asset quality, and the specific regulatory pressures resulting from the NBE's directed lending and capital adequacy regulations (Athanasoglou et al., 2008; Molyneux & Thornton, 1992; Pasiouras & Kosmidou, 2007). This discovery holds important policy ramifications across various aspects. From a monetary policy viewpoint, the continuous and increasing growth of NIM indicates that the interest rate transmission mechanism in Ethiopia functions in a structurally asymmetric manner, whereby adjustments in lending rates occur more swiftly and thoroughly than changes in deposit rates, a situation that significantly impacts the effectiveness of monetary policy in controlling credit growth and addressing inflationary pressures (Demirgüç-Kunt & Levine, 2001; Levine, 1997). From the angle of financial inclusion, consistently large and increasing interest margins pose a major obstacle to the affordability of formal credit for low-income families and micro-

enterprises, likely limiting the financial inclusion results that the Ethiopian banking sector's development aims to foster (Beck et al., 2010; World Bank, 2023). From a regulatory viewpoint, the results highlight the necessity of crafting banking sector oversight structures that both enhance competitive intermediation efficiency and limit the cost and asset quality challenges that hinder gross margin improvements from becoming sustainable advancements in net profitability and long-term financial sector stability (National Bank of Ethiopia, 2023; International Monetary Fund, 2022).

4.4 Inferential Analysis

4.4.1 Assumption Testing Underlying the Model

Before estimating the panel regression model four diagnostic tests were conducted to verify that the data satisfy the assumptions underlying the classical linear regression model and to identify the most appropriate estimation technique. The multicollinearity test examines whether the independent variables are highly correlated with one another, a condition that can inflate standard errors and distort coefficient estimates. The normality test assesses whether the model residual are approximately normally distributed which is necessary for valid statistical inference. The homoscedasticity test checks whether the variance of the residual is constant across observation, since heteroscedasticity can bias hypothesis testing and standard errors. Finally the Hausman specification test was applied to determine whether the fixed effects or random effects estimator is more appropriate for the panel data. The Results of each test are presented in turn below.

Multicollinearity (dependence of Predictors) assumption

Multicollinearity is a statistical phenomenon in regression analysis where two or more independent variables (predictors) are highly correlated with each other. This means one predictor can be used to predict another, making it difficult for the model to isolate the individual effect of each variable on the dependent variable. Hence, this study has made test whether there is correlation among independent variables or not. VIF was used for the same. Nine different independent variables were tested and results revealed that education of board members who have degree or above' is excluded by the regression model.

In statistics cutoff point for VIF indicates that, VIF = 1: No correlation, 1 < VIF < 5: Moderate correlation, generally not cause for concern, VIF > 5: Potential multicollinearity issues; consider examining coefficients, and VIF > 10: Serious multicollinearity; coefficients are likely poorly estimated. As indicated under Table 5, there is no multicollinearity issue among the predictors implying that assumption is fulfilled because VIF (Variance inflation factor is less than 10).

Table 5: Assumption 1. Multicollinearity (dependence of Predictors)

Independent Variables	Collinearity Statistics	
	Tolerance	VIF
Frequency of board meeting	.496	2.016
Education of board members		
Number of board members with financial sector experience	.682	1.466
Size of the board of directors	.713	1.402
Total number of female board of directors	.663	1.509
Number of board meetings held per year	.533	1.877
Size of the bank	.222	4.504
Bank age	.224	4.469
Existence of sub-committee	.745	1.342
a. Dependent Variable: Return on Asset (ROA), Return on Equity(ROE) and Net Interest Margin (NIM)		

Source: Own Computation (NBE, 2023)

Normality of residual Assumption

The normality assumption states that data (or model residuals) follow a normal distribution (a bell-shaped curve) with a mean of 0 and constant variance. Table 6 below revealed the assumption test results of the three dependent variables including ROA, ROE, and NIM. Accordingly, since p value (sig) is greater than 0.05, the null hypothesis (normal distribution of error) is accepted in Kolmogorov-Smirnov test of normality.

Table 6: Assumption 2 -Tests of Normality

Unstandardized Residual of	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
BOA	.060	140	.200*	.957	140	.000
BOE	.067	140	.200*	.970	140	.004
NIM	.057	140	.200*	.983	140	.079

*. This is a lower bound of the true significance.

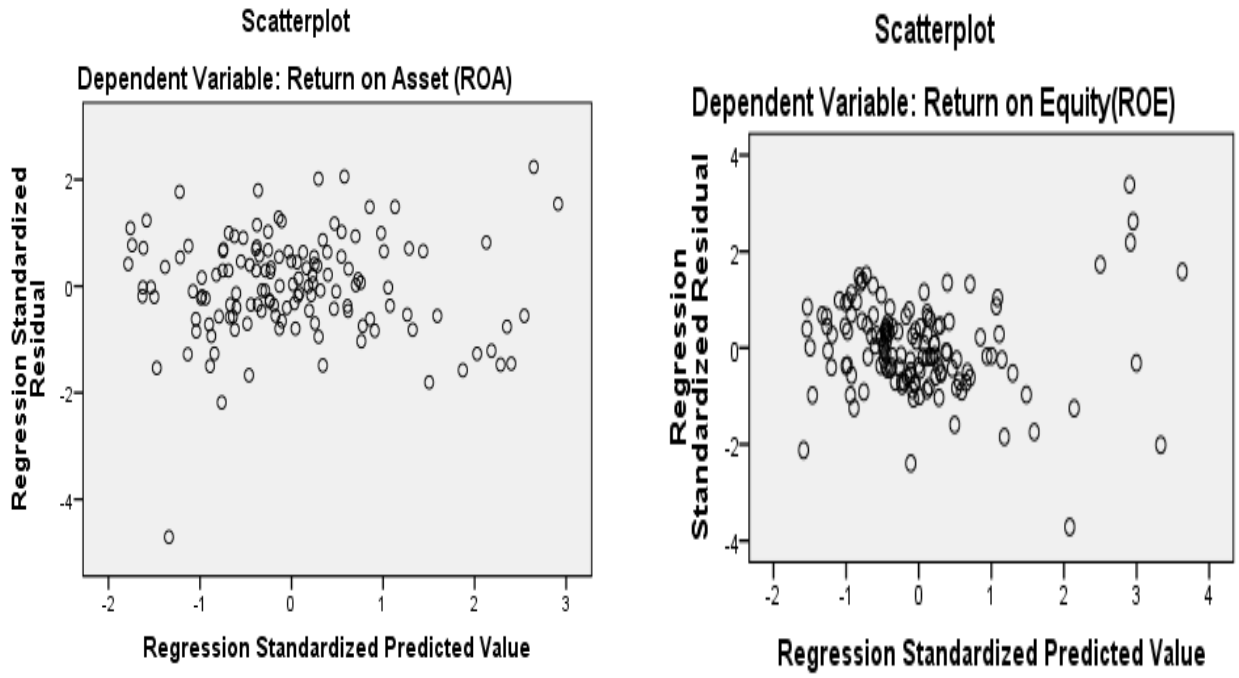
a. Lilliefors Significance Correction

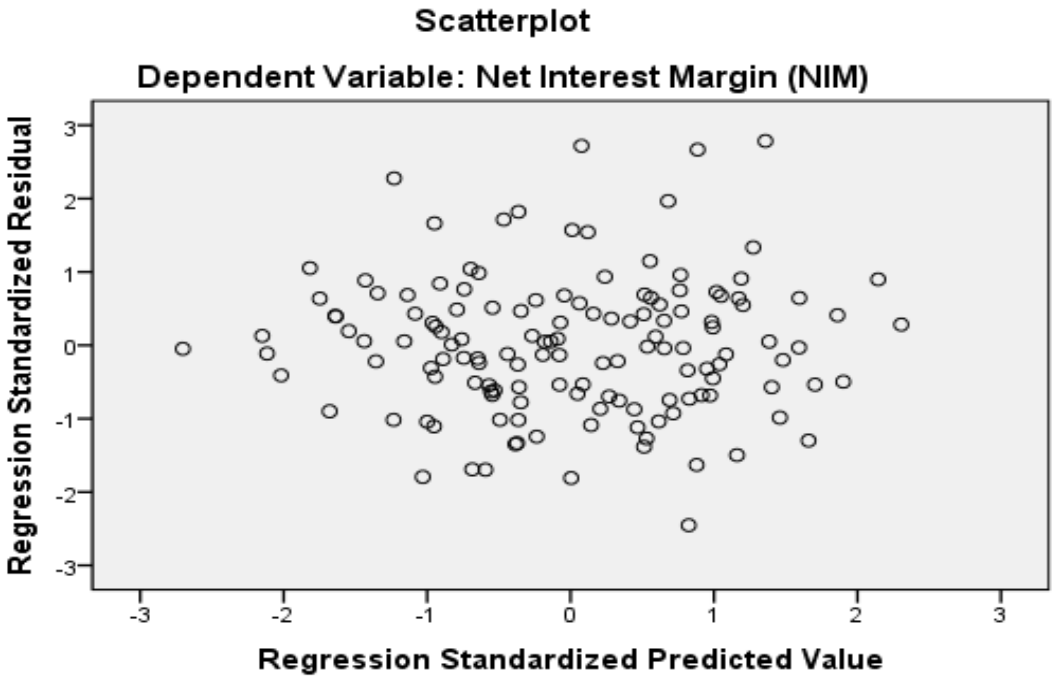
Source: Own Computation (NBE, 2023)

Homoscedasticity (Constant Variance)

Homoscedasticity refers to the assumption in regression analysis that the error terms (residuals) have a constant variance across all levels of the independent variables. It indicates that the scattering of data points around the regression line is uniform, ensuring reliable model predictions. When this condition is violated (heteroscedasticity), model errors are not uniform, leading to unreliable, biased estimates. In other words, if dots are observed with no clear pattern, then the data is said to be homoscedasticity. Assumption of homoscedasticity is fulfilled either of the three standardized residual vs. predicted graph have shown no pattern (fan shape or a cone). This assumption assumes that the spread of data error is the same across all fourteen years regardless of the bank size.

Fig 3: Assumption 3. Homoscedasticity (Constant Variance)





Source: Own Computation of Survey Results (2026)

Hausman Test for Model Selection

The Hausman test is a key tool for detecting endogeneity in regression models. Endogeneity occurs when an explanatory variable is correlated with the error term, while exogeneity implies the explanatory variable is uncorrelated with the error term. Hausman test helps researchers choose between fixed effects and random effects in panel data analysis.

Ho: exogeneity hold (Unobserved Effects Uncorrelated with Regressors) then random effect (RE) is more efficient

Result interpretation of Table 7 shows that the Hausman test of three dependent variables is shown in the table -. Significant results from ROA and NIM (P value = 0.012 <0.05) require us to utilize FE after rejecting RE. However, the ROE result suggests that we should adopt RE. So, Hausman test result is the prerequisite for evaluating the result for the following three tables.

Table 7: Hausman Test for Model Selection (Eviews result)

Dependent Variable	Chi-Sq. Statistic	P-value	Decision	
			Fixed Effects	Random Effects
ROA	14.52	0.012*	✓	
ROE	5.21	0.150		✓
NIM	18.33	0.002**	✓	

Source: Own Computation of Survey Results (2026)

4.4.2 Determinants of ROA, ROE, and NIM

4.4.2.1 Determinants of ROA

As shown in Table 8 below, nine different independent variables were inserted in the Fixed Effect Model to examine variables affecting ROA of banking sectors in Ethiopia. For example,

Number of board members with financial sector experience has positively (β=0.162, p=0.003) and significantly, Determinate the ROA of the banking sectors, in terms of marginal effect, it imply that for a single bank, adding one additional board member with financial sector experience is directly and proportionally associated with an average increase in ROA of 0.162 units, holding all other internal factors constant. This finding aligns with agency theory, which posit that knowledgeable directors mitigate information asymmetry and enhance monitoring, lending to improve asset utilization. Furthermore its support the positive relationship identified by Minton et al, (2014) and Ujunwa (2012).The significance of this result indicate that practical financial expertise among bored members' is crucial for enhancing ROA with the Ethiopian Banking.

Size of the board of directors as independent variable has (β= - 0.329, p= 0.003), ROA in the sampled bank sectors in Ethiopia meaning that as the negative Beta (-0.329) indicates an inverse relationship. For every unit increase in board size (e.g., adding one more director), the ROA is expected to drop by 0.329 units, holding other factors constant. This finding aligns with Jensen's (1993) assertion issues, and it supports the negative relationship identified by Yermack (1996) and Kemaly et al. (2013). Additionally, it corroborates previous Ethiopian studies by Ashenafi et

al. (2013), suggesting that smaller, more cohesive boards are more effective in enhancing ROA performance.

Bank age as independent variable has negatively (β= - 0.124) and significantly (P-value 0.001 < 0.05 affected ROA in the sampled bank sectors in Ethiopia meaning that as a bank gets older, its profitability (specifically ROA) tends to decrease. This result suggests that younger banks in the sample may be more efficient or agile than older, established institutions.

Table 8: Determinants of ROA

	Fixed Effect		Random Effect	
	B	Sig	B	Sig
Frequency of board meeting	-.039	.132	-.021145	.201
Education of board members			-.280866	.002
Number of board members with financial sector experience	.162	.033*	.067761	.165
Size of the board of directors	-.329	.003**	0[b]	
Total number of female board of directors	.086	.406	.067225	.461
Number of board meetings held per year	-.019	.319	-.010581	.467
Size of the bank	.000	.741	-.001256	.005
Bank age	-.124	.001**	.001966	.867
Existence of sub-committee	.191	.132	.108479	.246
R square	0.505			
F ratio	7.312	0.000**		

Source: Own Computation of Survey Results (2026)

4.4.2.2 Determinants of ROE

As shown in Table 9 below, nine different independent variables were inserted in the Random Effect Model to examine variables affecting ROE of banking sectors in Ethiopia. For example Education of board members with P-value 0.026 < 0.05 revealed that the ROE has been affecting by education of the board members of the banks, this confirms that the educational background of bank board members is a meaningful addition to the model and was found significantly associated with changes in the bank's ROE. Positive viewpoint presented by Ferreira (2010) and Poon et al. (2013).

Furthermore, the size of the bank was another determinant factor of ROE. That is, as indicated in Table 9 below, it was found that size of the bank has negatively (β= - 0.010) and significantly (P-value 0.000 < 0.05) affected ROE of the banking sector in Ethiopia implying that a one-unit

increase in the size of the bank (typically measured as the natural logarithm of total assets) is associated with a (0.010) decrease in ROE, holding other factors constant. This suggests that larger banks in the sample are less efficient at generating profit from equity than smaller counterparts. Bank size is often negatively associated with Return on Equity (ROE) due to inefficiencies, high operating costs, and reduced agility that can accompany rapid growth, commonly referred to as diseconomies of scale. While larger banks can spread fixed costs over more assets, they frequently suffer from increased bureaucratic and management complexities, resulting in lower profitability relative to their size. The most study conducted by different researcher support this and finds a negative relation thereof. Rajendran(2012).

Bank age as predictor variable of ROE in the banking sector in Ethiopia revealed negatively (β= - 0.281) and significantly (P-value 0.000 < 0.05) affecting the financial performance measured by ROE, a value of -0.281 indicates that for every unit increase in age (typically years), ROE is predicted to decrease by 0.281 units.

Table 9: Determinants of ROE

	Fixed Effect		Random Effect	
	B	Sig	B	Sig
Frequency of board meeting	-.259	.310	-.188417	.177
Education of board members			-1.755902	.026
Number of board members with financial sector experience	-.130	.862	.225411	.573
Size of the board of directors	-1.715	.118	0[b]	
Total number of female board of directors	-1.346	.190	-.272580	.749
Number of board meetings held per year	-.176	.341	-.131607	.318
Size of the bank	-.010	.085	-.020963	.000**
Bank age	-.281	.424	.590972	.000**
Existence of sub-committee	-.636	.611	-.291315	.713
R square	0.573			
F ratio	9.648	0.000**		

Source: Own Computation of Survey Results (2026)

4.4.2.3 Determinants of NIM

Fixed effect model results of Table 10 below revealed that size of the board of directors, size of the bank, bank age, and existence of sub-committee has been affecting the NIM performances of banking sector in Ethiopia. For example, it was found that size of the board of directors has affected NIM negatively (β= - 0.250) and significantly (P-value 0.010 < 0.05), this findings suggest that as the size of the board of directors increases, the bank's net interest margin (NIM)

decreases significantly (β=-0.250, p=0.010) implying that larger boards may hinder performance through inefficiencies, poor communication, or increased agency costs, contrary to the view that more directors provide better oversight. The result of this study is consistent with (Jensen, 1993), (Kemaly et al., 2013).

In turn, size of the bank affected NIM negatively (β= - 0.001) and significantly (P-value 0.023 < 0.05). This result indicates that as banks grow larger, their net interest margin decreases, which suggests that larger banks in the sample may not be fully benefiting from economies of scale regarding their interest-earning activities.

Bank age affected NIM positively (β= 0.327) and significantly (P-value 0.000 < 0.05) indicating that as banks mature and grow older, they are able to expand their net interest income relative to their earning assets.

Also, existence of sub-committee affected NIM positively (β= 0.218) and significantly (P-value 0.048 < 0.05) indicates that existence of a sub-committee has a meaningful, positive impact on a bank's Net Interest Margin (NIM) (banks with these committees tend to perform better in this metric than those without them). This is in line with research that emphasizes the importance of risk committees and ALCOs in maximizing asset-liability management (Romano & Guerrini, 2012; Bussoli, 2013).

Table 10: Determinants of NIM

	Fixed Effect		Random Effect	
	B	Sig	B	Sig
Frequency of board meeting	.004	.872	.005594	.795
Education of board members			-.232423	.013
Number of board members with financial sector experience	-.024	.716	-.015663	.804
Size of the board of directors	-.250	.010*	0[b]	
Total number of female board of directors	.102	.257	.107873	.214
Number of board meetings held per year	-.032	.051	-.036088	.022
Size of the bank	-.001	.023*	-.000877	.062
Bank age	.327	.000**	.304361	.000
Existence of sub-committee	.218	.048*	.237370	.026
R square	0.845			
F ratio	39.157	0.000**		

Source: Own Computation of Survey Results (2026)

Summary of Determinants (ROA, ROE, NIM)

The analysis that the fixed effect model for Return on Asset identifies that the presence of bored members' with financial sector experience significant improves ROA (β=0.162, p=0.003). in contrast, large board size (β=-0.329, p=0.003) and Bank age(β=-0.124, p=0.001) adversely impact ROA. For Return of Equity, the education level of board member is significant (p=0.026), Bank size (β=-0.010, p=0.000) and bank age (β=-0.281, p=0.000) negatively affect ROE. Regarding Net interest Margin, the fixed effect model shows negative impact from board size (β=-0.250, p=0.010) and bank size (β=-0.001, p=0.023), while bank age (β=0.327, p=0.000) and sub committee existence (β=0.218, p=0.048) positively influence NIM. Othe variables have been found to be insignificant across the models.

Chapter Five

5 KEY FINDINGS, CONCLUSIONS AND RECOMMENDTIONS

5.1. Key Findings/Summary

Based on results of the current study, the first part presents the conclusion section and the second part present the possible recommendation in the last show limitation of study.

5.1.1. Demographic and social characteristics of respondents

Sex distributions: Out of the total sample size of the study, it was found that the response rate of the study was 50 of which 42% constitute female respondents and the remaining 58% were male respondents implying that the study was dominated by male survey respondents. In turn these results imply that the sample financial institutions/banks are predominantly dominated by male governance holders than female corporate governors of the banking sector.

Qualifications of respondents that 87% of highly qualified individuals in the bank have a master's degree, 12% have a bachelor's degree, 1% has a PhD and none have a diploma. It shows a high proportion of Masters, indicating that Master's degree holders comprised the majority of survey participants in the study on.

Positions of the respondents: this study focused on analyzing the data from 50 respondents. Identified the number of people who responded the survey. It was established that 24% are bored secretaries, 50% middle management and 26% supervision. CEOs are not there. The majority of those who replied are middle level managers. This indicates that the research presents views of all employees in relation to organizational structure. 24% of the bored secretaries have more power in the organization. They ensure compliance with the guidelines and assist leaders to communicate with subordinate. As per the finding most of the banks in this study have some form of organizational structure. 2 managers and 2 supervisors are assigned to every bored secretary in the organization. However, the structure is not consistent in different organization. For instance, commercial bank of Ethiopian and Anebesa international bank has middle managers implying that their structure is flat. Dashin and Zemen banks also have 2 bored secretaries and few supervisors.

Years of experiences of the total respondents 88% had more than five years of work experience, 52% had ten years or more, and only 12% showed less than five years. Among banks, Awash International bank stood out with 80% of its respondents having ten or more years of experience. On the other hand, Anbesa international Bank & Zemen Bnak was found to have two respondents each with less than three years of experience. On turn these results imply that the sample of ten commercial banks is predominantly dominated by more than five years of work experience.

Boar frequency of meetings: the response rate of the survey shows that 76% of operational management do not participate board in the meeting heeled by the bored. The total number of 12 responses to bored secretary equals the total number of 12 participants from Board Secretary Category, suggesting that the only link between the two is Secretary. Such organizational design embodies Agency Theory (Jensen & Meckling, 1976), where the adverse selection and moral hazards faced by the board and the management lead to high agency costs due to overreliance on formal control systems. Tacit knowledge possessed by experienced managers 88% is processed through the Secretary, creating possibilities for the loss of crucial frontline intelligence (Fama & (Jensen, 1983). Among ten Ethiopian commercial banks under observation, the majority follows the pattern of 1 bored secretary to 4 nonparticipants, while Dashen and Zemen Banks having 2 bored secretary and 3 nonparticipants.

5.1.2. Status of (ROA, ROE, and NIM Aggregate (mean) of financial /banking sector

5.1.2. 1 Aggregate financial sector mean ROA is significantly decline as of 2023

The mean Retune on Assets (ROA) of ten Ethiopia commercial bank initially rose from 2.89 in 2010 to a peak of 3.68 in 2013 driven by rapid credit growth and an oligopolistic market structure, there after ROA steadily declined to 2.40 by 2019, hit a low 1.90 in 2022 due to the tegray conflict, foreign exchange shortage and high inflation before covering slightly to 2.38 in 2023. The overall 14 years mean ROA of 2.61 remains above the sub sharan Africa average 1.5 to 2, indicating relatively profitability despite challenges. The decaling was primarily caused by rising operating cost, increased credit risk provisions and bank of Ethiopia's directed lending police national. This finding highlight how structural and regulation burden have progressive eroded asset efficiency even as Ethiopian banks continue to outperform regale peers.

5.1.2. 2 Aggregate financial sector mean ROE is increasing as of 2023

The ROE from 24.3 in 2010 to a peak of 32.51 in 2012 then declined to 19.61 in 2019 before recovering to 20.45 in 2023 reaming above 20 for 14 years .early gains come from low competition, restricted foreign entry and rapid growth. Post 2012 decline was driven by higher capital requirement, new bank competition, NBE low yield bond mandate and rising branch cost. The tigraye conflict 2021 worsened asset equity. Despite decline ROE stayed above sub Saharan average showing profitable is shaped more by market structure and macro conditions than bank specific efficiency.

5.1.2. 3 Aggregate financial sector mean NIM is increasing as of 2023.

Net interest margin (NIM) has increased steadily over the past 14 years, from 2.89 in 2010 to 7.53, according to the industry average of 10 commercial banks studied. This points to structural factors, but this expansion is coupled with a decline in ROA and ROE, suggesting that rising cost issues with asset quality and regulation limitation undermine the advantage of gross intimidation. key factors contribution NIM include elevated inflation a shift toward higher yield loans, postponed adjustment to deposit rates that lead to increase interest margin, minimal forging competitions. Conversely, increased operational cost, elevated credit loss reserves and required acquisition of low return bonds all hinder net profit. The finding emphasizes the need for regulation reform to enhance competitiveness.

5.1.3Determinates of poor financial performances of commercial banks in Ethiopia.

As stated under introduction part of this study, the second objective of the study was to examine the determinates of poor financial performances of 10 commercial banks in Ethiopia. In response, the conceptual framework of Figure 1 has identified a total of nine independent variables such as frequency of board meeting, education of board members, number of board members with financial sector experience, size of the board of directors, total number of female board of directors, number of board meetings held per year, size of the bank, and existence of sub-committee and three dependent variables including ROA, ROE, and NIM. Different assumptions of the model were tested and found that the data fits to the model.

- Determinants of ROA: Nine independent variables including frequency of board meeting, education of board members, number of board members with financial sector experience, size of the board of directors, total number of female board of directors, number of board meetings held per year, size of the bank, and existence of sub-committee were regressed against dependent variable ROA of which only three independent variables are found significantly determined ROA.

  For examples, using random effect model, education of board members was found significantly determined the ROA of the financial sectors studied (P-value of 0.002 < 0.05). However, using fixed effect model, number of board members with financial sector experience has positively (β= 0.162) and significantly (P-value of 0.003 < 0.05) determinate the ROA of the banking sectors, in terms of marginal effect, it imply that for a single bank, adding one additional board member with financial sector experience is directly and proportionally associated with an average increase in ROA of 0.162 units, holding all other internal factors constant.

  Furthermore, using fixed effect model, ROA of the banking sector was negatively (β= -0.329) and significantly (P-value 0.003 < 0.05) determined by size of the board directors implying that there is an inverse relationship. For every one-unit increase in board size (e.g., adding one more director), the ROA is expected to drop by about 0.329 units, holding all other variables constant.

  The results of the random effect model for ROA revealed that size of the bank has significantly (P-value of 0.005<0.05) determined the ROA of the financial sectors in Ethiopia implying that for every one-unit increase in bank size (usually measured by the log of total assets), the change in ROA is near zero.

  Bank age as independent variable has negatively (β= - 0.124) and significantly (P-value 0.001 < 0.05 affected ROA in the sampled bank sectors in Ethiopia meaning that as a bank gets older, its profitability (specifically ROA) tends to decrease. This result suggests that younger banks in the sample may be more efficient or agile than older, established institutions.

  Last but not least, using fixed effect model, five independent variables such as frequency of board of meeting, total number of female board of directors, number of board meetings

held per year, size of the bank, and size of the bank and whereas using random effect model, independent variables like Frequency of board meeting, Number of board members with financial sector experience, Total number of female board of directors, Number of board meetings held per year, and Existence of sub-committee were examined as insignificant effect on ROA of the current commercial banks in Ethiopia (P-values are greater than 0.05).

- Determinants of ROE: Education of board members with P-value 0.026 < 0.05 revealed that the ROE has been affecting by education of the board members of the banks, this confirms that the educational background of bank board members is a "meaningful addition" to the model and was found significantly associated with changes in the bank's ROE. Furthermore, the size of the bank was another determinant factor of ROE. That is, as indicated in Table 9 below, it was found that size of the bank has negatively (β/Beta= -0.010) and significantly (P-value 0.000 < 0.05) affected ROE of the banking sector in Ethiopia implying that a one-unit increase in the size of the bank (typically measured as the natural logarithm of total assets) is associated with a (0.010) decrease in ROE, holding other factors constant. This suggests that larger banks in the sample are less efficient at generating profit from equity than smaller counterparts. Bank size is often negatively associated with Return on Equity (ROE) due to inefficiencies, high operating costs, and reduced agility that can accompany rapid growth, commonly referred to as diseconomies of scale. While larger banks can spread fixed costs over more assets, they frequently suffer from increased bureaucratic and management complexities, resulting in lower profitability relative to their size. Bank age as predictor variable of ROE in the banking sector in Ethiopia revealed negatively (β = - 0.281) and significantly (P-value 0.000 < 0.05) affecting the financial performance measured by ROE, a value of -0.281 indicates that for every unit increase in age (typically years), ROE is predicted to decrease by 0.281 units.
- Determinants of NIM: it was found that size of the board of directors has affected NIM negatively (β = - 0.250) and significantly (P-value 0.010 < 0.05), this findings suggest that as the size of the board of directors increases, the bank’s net interest margin (NIM) decreases significantly (β= -0.250, p= 0.010) implying that larger boards may hinder performance through inefficiencies, poor communication, or increased agency costs,

contrary to the view that more directors provide better oversight. In turn, size of the bank affected NIM negatively (β= - 0.001) and significantly (P-value 0.023 < 0.05). This result indicates that as banks grow larger, their net interest margin decreases, which suggests that larger banks in the sample may not be fully benefiting from economies of scale regarding their interest-earning activities. Bank age affected NIM positively (β/Beta= 0.327) and significantly (P-value 0.000 < 0.05) indicating that as banks mature and grow older, they are able to expand their net interest income relative to their earning assets. Also, existence of sub-committee affected NIM positively (β= 0.218) and significantly (P-value 0.048 < 0.05) indicates that existence of a sub-committee has a meaningful, positive impact on a bank's Net Interest Margin (NIM) (banks with these committees tend to perform better in this metric than those without 'them).

5.3. Conclusions

Based on above key findings of the results of the current study, the following conclusions are identified:

Except, Bank of Abyssinia, findings show that male survey respondents are greater than female respondents. Hence, it is possible to conclude that governance system of the 9 commercial banks currently studied have been male dominated than female bank governors.

Consequently, these findings suggest that corporate governors with master's degrees are more common in the sampled financial institutions/banks compared to the majority of bank managers who are corporate governors.

Based on the results show that sample financial institutions or banks are very different in the way they do things. Some of these banks like Commercial Bank of Ethiopia and Lion International Bank have a management style with fewer layers of bosses. Other banks, like Dashen and Zemen Banks have a complicated system with many layers of management and even two secretaries. But there is a problem at some of these banks like Dashen Bank, where the people, in charge are not really paying attention to what's going on at the ground level so they might not have a complete understanding of what is happening at the bank.

Based on respondent answers, the workforce across the ten commercial banks is highly experienced: 88% have over five years of work experience, and over half have ten or more years. Awash International Bank shows the deepest expertise, with 80% of its respondents at ten or more years, while Anbesa International Bank and Zemen Bank have a small share of junior staff (two respondents each with less than three years). Overall, the sample reflects a seasoned, stable talent pool with limited fresh perspectives.

Based on the results of Figure 2 it was found that over the years from 2010-2023, the financial performance indices including ROA, ROE, and NIM reveals notable fluctuations (slightly ascending/descending) in their respective financial performances of the target years. Hence, it is possible to conclude that the financial performance of those ten banks has worsened over the past 14 years implying that there exist poor corporate governance mechanisms.

Nine independent variables including frequency of board meeting, education of board members, number of board members with financial sector experience, size of the board of directors, total number of female board of directors, number of board meetings held per year, size of the bank, and existence of sub-committee were regressed against dependent variables ROA, ROE, and NIM. Based on the results of the current key findings it is possible to conclude that internal factor involves synthesizing panel data regression results (usually Fixed or Random Effects) into actionable insights regarding how internal management and external environments drive profitability.

From 2010 to 2023 Ethiopia commercial banks ROE showed an inverted pattern, increasing from 24.3 to a peak of 32.51 in 2012, then falling to 19.61 in 2019 before slightly increasing to 20.45 by 2023.stronge economic growth and poor banking penetration drove initial growth, high capital requirement more competition from private banks, NBE mandates for low yield bonds and growing operating expenses were all blamed for the fall

Ethiopia banks experienced a mean ROA of 3.68 in 2013 decreasing to 1.90 in 2022 due to conflicts, currency shortage and inflation before recovering to 2.38 in 2023. The 14 years average of 2.61 exceeds sub saharan Africa average 1.5 to 2.0, indicating resilience despite challenges like rising cost and credit provisions common in developing nations.

Net interest margin (NIM) has increased steadily over the past 14 years, from 2.89 in 2010 to 7.53, according to the industry average of 10 commercial banks studied. This points to structural factors, but this expansion is coupled with a decline in ROA and ROE, suggesting that rising cost issues with asset quality and regulation limitation undermine the advantage of gross intimidation. key factors contribution NIM include elevated inflation a shift toward higher yield loans, postponed adjustment to deposit rates that lead to increase interest margin, minimal forging competitions. Conversely, increased operational cost, elevated credit loss reserves and required acquisition of low return bonds all hinder net profit. The finding emphasizes the need for regulation reform to enhance competitiveness.

5.3. Recommendations

This study examined the Effect of corporate governance mechanism on financial performance by taking evidence from selected commercial banks in Ethiopia. On the basis of the findings and conclusions reached, the following recommendations were forwarded.

- It was concluded that the 9 commercial banks studied (except Bank of Abyssinia) were dominated by male corporate governors than female counterparts. Thus, the study strongly recommends the remaining commercial banks have to recruit more female corporate governors so that gender equality in the bank sector will be ensured. In turn, the more female commercial bank governors will positively and significantly contributed to better financial performances of those banks in terms of ROA, ROE and NIM.
- It was concluded that the corporate governance mechanisms of the ten banks was found poor. Hence, all banks are strongly recommended to improve their respective financial indices (ROE, ROA, and NIM).
- Internal factors of the banking sector have been impacting the profitability of the banking sectors in Ethiopia. Hence, it is strongly recommended that that studied bank to increase the governance system and increase their profitability has to resist this internal factor.
- To reverse declining ROA, Ethiopian banks should cut operating costs via digital banking, tighten loan underwriting to reduce credit risk, phase out NBEs low yield bond mandates, boost competition like controlled foreign entry and align deposit lending adjustments. This will sustain profitability and regional ROA leadership.

- To maintain Ethiopian banks ROE above 20 amid a long term decline, it is crucial for policy makers and banks to avoid excessive capital increase phase out low yield NBE bond mandate , control operating costs through branch optimization and digital banking ,monitor Compton to prevent margin Gradual Decline and enhance macroeconomic stability to protect against conflict and inflation. This measure will help sustain Ethiopian commercial banks ROE Leadership and ensure share holder retunes.
- Ethiopia must replacing mandatory low yield bonds purchase with market driven instruments, tightening loan underwriting requirements, promoting digital banking and ensuring balanced change to deposit rates. These adjustment aim to stabilize the sector, encourage financial inclusion and translate gain in gross margin in to long term Nat profitable.

5.4. Limitations and Potential Future Areas of Research

The study has identified the following limitations and proposed future areas of the research as follows:

- As shown in Figure 1 of the conceptual framework of the study, the current study has entirely focused on the sex distributions of the corporate governors and its determinants on the financial performances measured in terms of ROA, ROE and NIM. This revealed that the study didn't consider the gender perspective in the corporate governance systems of the banking sector that could be taken as one of the limitations of the study. Hence, future researchers are recommended to conduct the effects of gender on financial performances in the banking sector .
- The study has only covered the financial performances (ROA, ROE, and NIM) of the ten banks. However, due to time and financial constraints, the study was limited to cover all public and private commercial banks in Ethiopia. Thus, future researchers are proposed to conduct non-sampled private and public commercial banks in Ethiopia like Buna Bank, Nib Bank, Addis International bank, National banks and other banks.
- Another limitation of the current study is that the used entirely quantitative data collection and analysis implying that qualitative data was not collected and analyzed because the dependent variables (ROA. ROE and NIM) were measured in terms of numerical values.

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