



THE EFFECT OF CORPORATE GOVERNANCE ON COMPANY'S PERFORMANCE: THE CASE OF WEGAGEN BANK SHARE COMPANY

A THESIS SUBMITTED TO THE SCHOOL OF COMMERCE ADDIS ABABA UNIVERSITY FOR THE PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE MASTER OF ARTS IN BUSINESS LEADERSHIP

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**ADDIS ABABA UNIVERSITY, SCHOOL OF COMMERCE
COLLEGE OF BUSINESS AND ECONOMICS**

**JUNE, 2022
ADDIS ABABA, ETHIOPIA**

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STATEMENT OF DECLARATION

I, the undersigned, declare that the paper entitled "The effect of Corporate Governance on company's Performance: The Case Wegagen Bank s.c" is my own original work, and all the original materials I used for this work have been used, you get Appropriate recognition. I also guarantee that this project work has not been submitted to a university or scientific institution for a degree or a master's degree.

Name of the Student

Signature

Date

Tsion Abebe Woldemariam

STATEMENT OF CERTIFICATION

This is to certify that Tsion Abebe has completed her project work entitled on “**The Effect of Corporate Governance on Company’s Performance: The Case of Wegagen bank S.c** and submitted to the partial fulfillment of requirement of Master of Business leadership and it is her own original work and prepared under my close supervision.

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Acronyms

BOD: Board of Directors

BIAC: The business and industry advisory committee

CEO: Chief Executive Officer

EPS: Earning Per Share

NBE: National Bank of Ethiopia

OECD: Organization for Economic Cooperation and Development

ROA: Rate on Asset

ROI: Return on investment

SPSS: Statistical Package for Social Science

TUAS: Trade union advisory committee

ABSTRACT

This study aimed in examining the effect of corporate governance on company's performance: the Wegagen bank s.c. To examine this both descriptive and explanatory study was conducted. The study population was comprised of 211, out of management respondent which is 182 respondents was participated. The sampling method is random clustered sampling and a questionnaire was used as a tool for data collection using five-point scales. Both descriptive and explanatory (correlation and regression) statistics have been used to analyze the data. Corporate governance indicators employed in this study was corporate governance practice, board structure, board's independence and board's educational qualification. The regression result indicates that the corporate governance variables (corporate governance practice, board structure, board's independence and board's educational qualification) have positive and statistically significant effect on organizational performance.

This study recommends that the bank should focus on improving corporate governance to boost its performance and enhance competitive advantage. As board is determinant issue for the success of the company the bank should focus on this area.

Key words: *boards, corporate governance, company's performance,*

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

One key element of improving microeconomic efficiency is corporate governance. Corporate governance affects the development and functioning of capital markets and exerts a strong influence on resource allocation (Maher and Andersson, 1999)

Corporate governance is a system used to direct and control an organization. It includes relationships between, and accountability of, the organization's stakeholders, as well as the laws, policies, procedures, practices, standards, and principles which may affect the organization's direction and control (Cadbury, 1992). It also includes reviewing the organization's practices and policies in regard to the ethical standards and principles, as well as the organization's compliance with its own code of conduct. (Al-Baidhani, 2015).

Corporate governance is about aligning the interests of stakeholders and ensuring that everyone works toward a common goal that is in the firm's best interests. Corporate governance is a set of practices that helps stakeholders negotiate support for their conflicting interests and enables principals to hold agents accountable for their decisions and actions (Ruth and Isak, 2014). Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Consequently corporate governance is all about running an organization in a way that guarantees that its owners or stockholders receive a fair return on their investment, while the expectations of other stakeholders are also met. (Magdi and Nedareh, 2002).

In today's global economy, the success of the national economy depends on the crucial role of organizations' competitiveness, transparency and governance structure which operate within her territory, since organizations are the entities that create economic value (Ican, 2009). Indeed, the need for trust and transparency in the governance of corporate organizations has been one of concern for standard setters all over the world. This need has obviously spurred renewed interest in the corporate governance practices of modern corporations, particularly in relation to

accountability and economic performance.

Businesses constantly strive to do more in less time with fewer resources. Many scholars and practitioners, such as Anne Simpson at CalPERS, argue that good corporate governance which includes good values leads to higher firm profitability and more efficient use of firm resources. Corporate governance is not just about having bylaws, conducting annual ethics training, and conforming to industry rules of conduct. It also involves creating standards, holding firms accountable for meeting those standards, instilling values that generate greater shareholder profits, and being good corporate citizens (Ruth and Isak, 2014).

This study will examine the relationship between corporate governance and the performance of organizations from various perspectives: better decision making, effective asset management, better competitive advantage, and improvement in level of confidence, among others. It will discover that the adoption of good corporate governance practices enhances transparency of company's operations, ensures accountability and improves firm's profitability. It also helps to protect the interest of the shareholders by aligning their interest with that of the managers.

This research focuses on the effects of corporate governance on company's performance of Wegagen bank Share Company.

1.2. Background of the organization

This research will be conducted in Wegagen bank Share Company. Wegagen bank Share Company was established the 11th of June 1997. It came to life as a result of the entrepreneurial wit of sixteen founding members who recognized the critical role that financial institutions would play towards creating a sustained economic development and were able to put in an initial paid –in capital of birr thirty million (birr 30 million).

Established under the banking proclamation of licensing and supervision, proclamation No. 84/1994, the bank was registered with the national bank of Ethiopia on April 30, 1997. The memorandum and articles of association of the bank were signed on April 15th, 1997 and registered with the Addis Ababa bureau of trade, industry and tourism on April 15 1997, registration number 1/34/4/89.

The bank, as it started back then, operated through its head office located in Gofa Sefer, Addis Ababa. In October 2017, Wegagen moved to its 23 floor headquarters building in front of Addis Ababa stadium, Ras Mekonnen Street.

Wegagen bank has a network of 397 branches of which 144 are in Addis Ababa and the remaining 253 are located in other cities and towns of the country. To expand its service coverage the bank keeps on opening additional branches both at Addis Ababa and regional towns.

Wegagen bank is governed by the board of directors consisting of a chairperson, a vice chairperson and eight directors. The overall management is entrusted to the management team which comprises the president/chief executive officer, who is appointed by the board of directors, four vice-presidents and sixteen directors as well as manager of engineering service.

1.3. Statement of the problem

Following to different NBE requirements and macro environment changes, banking business environment has become more challenging. Besides, information and communication technology growth and reformation has initiated a new door of competition among peer banks regarding service excellence and delivery technique. As competition grows, it is common to look for the best-fitting strategies and tactics which enable to triumph over the competitors in respect to service excellence. In line with this common practice include organizational restructuring and process reengineering with the attempt of creating smooth and conducive channel for the strategic goal achievements and secure market share and business growth.

Effective corporate governance has been identified to be critical to all economic and banking transactions especially in emerging and transition economies (Dharwardkar et al., 2000).

For a developing country such as Ethiopia corporate governance is critical importance.

Aggarwal et al. (2007) asserts that good governance helps banks to have favorable access to capital markets although this benefit holds little value to banks in under-developed capital markets or for banks with limited growth opportunities. Better governance restricts controlling shareholders' expropriation of minority and this loss of private benefits is even more in countries with low investor protection. Hence, countries that have weak protection for investors are expected to have worse corporate governance and hence enhanced firm level governance can lead to a marked improvement in firm value.

Corporate failures have come about as a result of bad corporate decisions made by its leaders in attempts to expropriate rents. The enactment of good corporate governance across the globe justifies the importance adopting sound corporate governance policies. Furthermore, effective

corporate governance reduces “control rights” shareholders and creditors confer on manager, increasing the probability that banks generates and also enable managers to invest in positive net present value projects (Shleifer and Vishny, 1997).

The structure of corporate governance determines the distribution of rights and responsibilities between the different parties in the organization and sets the decision- making rules and procedures. It is usually up to the management board to decide how the company will develop.

1.4. Research questions

1. What is the effect of corporate governance practices in relation with company’s performance?
2. What is the effect of board independence towards company’s performance?
3. What is the effect of boards’ structure towards company’s performance?
4. What is the association of board directors’ educational qualification with company’s performance?

1.5. Objective of the Study

1.5.1 General Objective

The main objectives of this project is to assess the effect of corporate governance on company’s performance in Wegagen bank S.C

1.5.2 Specific Objectives

- To assess corporate governance practices and determine current company’s performance.
- To identify to what level board independence affects company’s performance.
- To determine to what level boards’ structures affects company’s performance.
- To determine to what level board directors’ educational qualification affects company’s performance.

1.6. Hypothesis

H1: There will be a relation between the variable “corporate governance practice” and company’s performance;

H2: There will be a significant correlation between the variable “board independence” and company’s performance;

H3: There will be a relation between the variable “board’s structure” and company’s performance;

H4: There will be positive and significant effect between the variable “board directors’ educational qualification” and company’s performance;

1.7. Significance of the Study

The study will examine the effect of corporate governance on company’s performance. Thus, the managerial relevance of this research project will be providing the management and the bank with the information about the effect of some selected factors which affects firm’s performance from scientific perspective. The study will have the following advantages:

- It will provide an insight about the corporate governance in banking industry in general and in Wegagen bank in particular.
- It will be used as reference and also a stepping stone for further studies

The empirical results would also be the general indicators of corporate governance in relation toward company’s performance.

1.8. Scope of the Study

This study will focus on investigating the effects of corporate governance on company’s performance in the context of Wegagen bank.

To this end, this study were limited to corporate governance independent variables (corporate governance practices, board independence, boards’ structures and board directors’ educational

qualification) to impacts on company's performance. The dependent variables were delimited to company's performance.

Thus, the data for the study will be collected from Wegagen bank. In addition the data for this research will be collected from head office organ and branch offices found in Addis Ababa .Different issues can be raised in corporate governance studies, but this study only focused on effects of corporate governance on company's performance with special emphasis on those effects which are internal to the organization.

1.9. Limitation of the Study

The research is limited to the effect of corporate governance on company's performance. The study was assessed only in Wegagen bank s.c.

It is further limited to four dimensions (variables) predict the effect towards dependent variable of company's performance in the bank industry. Though there are numerous corporate governance variables that may affect company's performance.

Moreover, the catchment area of the study is limited only to head office, Addis Ababa branches and districts of Wegagen Bank S.C. selected branches that are located in Addis Ababa due to time and financial constraints to include and manage all the Ethiopian banks.

1.10. Organization of the Study

This paper will be organized in to five chapters. Chapter one presents introductions of the study which contains background of the study, background of an organization , statement of the problem, research objective, significance of the study, scope of the study , limitation of the study and organization of the research project. Chapter two presents the literature review part. Chapter three will present the research methodology part. Chapter four will be presented the analysis and discussion of the study and reports the results and a discussion thereon. In the final chapter, conclusions, summary recommendations and suggestions for further research and improvements will be forwarded.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Introduction

This chapter discuss with explanations of the theoretical and empirical literature related to this research. There are many theories that are determinant of the effect of corporate governance on company's performance .this theories address concepts, principles, pillars and importance of corporate governance.

In addition, empirical studies are employed which conducted in various countries on the effect of corporate governance that impact company's performance.

2.2. Theoretical Framework

2.2.1. The Concept of Corporate Governance

The practice of corporate governance (CG) in organizations has developed rapidly in recent times, and its importance has been highlighted around the world. It has even been adopted by countries that have not yet regulated the adoption of CG in their organizations. The reason for the global interest in GC is that it underpins a company's operating framework. Therefore, the adoption and implementation of the QA practice is expected to benefit the owners, since they are committed to using the principles and mechanisms, which in the broadest sense amounts to an effective monitoring of the activities of a company, particularly when the principles of disclosure and transparency are adopted. (Grantham, 2020). Consequently, when adopting and implementing CG in companies, this decision can have a positive impact on decisions related to current investors, on the one hand, and potential investors on the other (Hebble and Ramaswamy, 2005). the bankruptcy and collapse of large US corporations such as Worldcom, Enron and Adolphia, and public awareness of these financial disasters has led investors to become increasingly aware of organizations that are known for having good QA practices to achieve and maintain a good reputation, since there is guidance for investors to prefer to invest in companies that adopt best QA practices In addition, as the information is available, shareholders and owners can access and evaluate decisions on a daily basis , in addition to the evaluation carried out by the analysts (Alabdullah, Yahya and Thurasamy 2014). In this way, the clear and important role

of the CG is highlighted with respect to the effect of these mechanisms on the performance of companies (Alabdullah, 2016). Several studies prove the relationship between CG and company performance, but the results are inconsistent; some report positive results, and others are mixed: negative and positive from company performance (Alabdullah et al., 2016). This article fills a gap in relation to the concept of corporate governance, in this sense, the first section presents a review of the literature in relation to the concept of corporate governance (CG), followed by a review of the theories from which it is studied: theory of the agency; theory of the shareholder or stockholder; the resource dependency theory; the Stakeholder theory; Stewardship theory or Management theory, an approach based on knowledge and corporate governance and the performance of the company and finally, the conclusion of the study.

Good governance codes

It is also important to bear in mind that the concept of corporate governance is framed within business ethics. Business ethics is the ethics applied to the organizational field, which refers to human quality, the excellence of people and their actions, within the framework of their work in them. Good business conduct practices are embodied in codes of ethics, which contemplate the set of values that are established in the same system or code in order to benefit the company as a whole. Thus, corporate governance framed within the area of business ethics is defined as the system by which companies are directed and controlled, Cadbury (1992) and embodied in the so-called codes of good governance. In this way, the objective of all good governance codes is to protect shareholders from the power of managers, as well as to ensure that there is good control of the former towards the latter, avoiding the agency problems existing between them. In this context, it is agency theory that studies the relationships between shareholders and managers and the underlying conflicts of interest between the two. Currently, there are various control mechanisms, both externally (goods and services market, capital market, job market for managers and corporate control market) and internal (board of directors, design of compensation contracts, general meeting of shareholders and financial structure). All of them aim to reduce existing agency problems, such as opportunistic and self-interested profit making managers. In order to reconcile the common objectives between the shareholders (principal) and the managers (agents), the figure of the board of directors appears. It is a key entity within the internal mechanisms used by companies to control their executives (Dalton, Daily, Ellstrand and Johnson, 1998). The directors belonging to the boards of directors will have a level of

information about the composition and characteristics of said boards in matters of corporate governance. Depending on a series of characteristics of the board, a level of corporate governance culture is determined, in which, at a higher level of corporate culture, fewer agency problems between shareholders and company executives. In fact, existing agency problems in a company can be minimized. On the one hand, through the control of internal mechanisms such as those related to the composition of the board of directors (Baek, 2009) and, on the other, favoring the transparency of organizations, through the issuance of more adequate financial-accounting information to reality (Fernández-Rodríguez, Gómez-Ansón and CuervoGarcía, 2008). The issuance of good governance codes by different countries improves the level of corporate governance culture by companies (Zattoni and Coumo, 2008), which favors obtaining better business results (AlixValenti, Luce and Mayfield, 2011). This is achieved through comply or explain recommendations, which dictate procedures that favor the disclosure of more and better information for all the agents involved (Van den Berghe, 2002; Monks and Minow, 2004). By obtaining better results, on the one hand, and information more appropriate to the reality of the company on the other, the ultimate goal of value creation companies is achieved.

2.2.2. Importance of Corporate Governance

Corporate governance contributes to growth and development of the corporation itself, the related activities and the state in general. For a long time now the role of the company is not only to produce or provide services and make profits in this way. Companies take responsibility for development of the social environment. It is not possible to ensure development of the company relying only upon the interest of the company, while neglecting the overall development of the community. Corporate governance contributes to improved efficiency and effectiveness of the economic system. The existence of an efficient system of corporate governance within a company or the economy as a whole helps to reach the level of trust necessary for proper operations of a market economy. As a result, we have lower cost of capital; companies are encouraged to efficiently use resources, thus supporting growth.

As a result of globalization and the increasing complexity of business there is a greater reliance on the private sector as the engine of growth in both developed and developing countries. Corporations are legal entities created by societies because they are an efficient form of

organization and society benefits from their existence. Corporations contribute to economic growth and development, which in turn leads to improved standards of living as well as the alleviation of poverty. The end result of all this activity is the creation of more stable political systems.

Furthermore as noted by Gregory and Simms (1999), the quality of corporate governance is important since it has a direct impact on:

a. The efficiency with which a corporation employs assets

Effective corporate governance ensures the optimal use of resources both intra-firm and inter-firm. With effective systems of corporate governance, debt and equity capital will go to those corporations capable of investing it in the most efficient manner for the production both of highly demanded goods and services as well as those with the highest rate of return. This helps to protect and nurture scarce resources thereby ensuring that societal needs are met. In all probability this will mean that incompetent managers are replaced. These efficiency effects both as to scarce resources and the quality of managers should apply whether a firm is a state owned enterprise, a private closely held firm owned by a family group, or a publicly traded corporation on a stock exchange.

b. Its ability to attract low-cost capital

Effective corporate governance also helps to lower the cost of capital by improving the confidence of both foreign and domestic investors that their assets will be used for the purposes agreed. A survey of institutional investors by R.F.Felton et al (1996) found that they would willingly pay on average well over ten percentage points more for a “well governed” company, all other things being equal. In competitive markets, this means that managers must constantly evolve new strategies to meet the changing circumstances. This requires that managers be empowered to make decisions. However, as observed by that famous 18th century economist Adam Smith, managers may have incentives to act in their own self-interest under such circumstances. Jensen and Meckling (1976) found that when firm ownership is separated from control, the manager’s self-interest may lead to the misuse of corporate assets, for example through pursuit of overly risky or imprudent projects. Therefore we need to have in place rules and regulations to protect the best interests of the providers of capital. They include the following:

- i. Independent monitoring of management
- ii. Transparency about the performance, ownership and control of the corporation
- iii. Participation in certain fundamental decisions by the shareholders

c. Its ability to meet the expectations of society

For long-term success, corporations must comply with the laws, regulations and expectations of societies where they operate. Many corporations take their role as corporate citizens seriously thus contributing to civil society. Regrettably however, some corporations are opportunistic and seek to profit from child labor or act without regard for the environment. The latter are not merely failures of corporate governance but are symptomatic of the larger failures of government to provide the framework needed to hold corporations responsible for issues that are also important for society at large.

d. Its overall performance

When corporate governance is effective, it provides managers with oversight and holds boards and managers accountable in their management of corporate assets. This oversight and accountability combined with the efficient use of resources, improved access to lower-cost capital and increased responsiveness to societal needs and expectations should lead to improved corporate performance. Effective corporate governance should make it more likely that managers focus on improving firm performance and are replaced when they fail to do so. A study carried out by Millstein and MacAvoy in the United States (U.S.) analyzing data from 1991-1995 found that U.S. corporations with active and independent boards of directors generated higher economic profit hence supporting the reasonable assumption that corporate governance matters to corporate performance. Effective corporate governance also helps to reduce corruption in business dealings by making it difficult for corrupt practices to develop and take root in a company.

2.2.3. Principles of Corporate Governance (OECD)

Corporate governance is crucial for the integrity and efficiency of financial markets poor corporate governance reduces a company's potential and can lead to financial problems and fraud. Companies that are well-governed typically outperform their competitors, and attract investors who can help financial future expansion.

In 1999, the organization for economic cooperation and development published principles of corporate governance and has since become global benchmark for policymakers, investors, firms and other stake holders. They have also been adopted as one of the financial stability board's key standards for sound financial systems, and they are the foundation for the World Bank's corporate governance reports on the observance of standards and codes (ROSC).

The OECD revised version of the OECD principles of corporate governance on April 22, 2004. It included a number of new proposals as well as changes to existing ones. A consultation process included OECD members and representatives from OECD and non-OECD areas.

A second review of the principles was conducted in 2014/15 based on the 2004 version of the principles with significant contributors from OECD regional corporate governance roundtables in Latin America, Asia the middle east and north Africa, as well as experts, an online public consultation, and the OECD's official advisory bodies, the business and industry advisory committee(BIAC) and the trade union advisory committee (TUAC.)

The OECD principles urge business to ensure that they have process in place to resolve any potential conflicts of interest, and provide a framework for internal companies about management or board appointments.

The six OECD principles are:

a. Ensuring the basis of an effective corporate governance framework

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

b. The rights and equitable treatment of shareholders and key ownership functions

The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

Basic shareholder rights should include the right to:

- ✓ Secure methods of ownership registration

- ✓ Convey or transfer shares
- ✓ Obtain relevant and material information on the corporation on a timely and regular basis
- ✓ Participate and vote in general shareholder meetings
- ✓ Elect and remove members of the board
- ✓ Share in the profits of the corporation.

c. The institutional investors, stock markets and other intermediaries

The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.

- All shareholders of the same series of a class should be treated equally
- Insider trading and abusive self-dealing should be prohibited
- Members of the board and key executives should be required to disclose to the board whether they directly indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.

d. The role of stakeholders in corporate governance

The corporate governance frame work should recognize the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between co-operations and stake holders in creating wealth, jobs, and the sustainability of financial sound enterprises

e. Disclosure and transparency

The corporate governance frame work should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

Disclosure and transparency should be the cornerstone of corporate governance laws and codes. Business organizations of should disclosure their financial and operating results, ensuring that their shareholders and stakeholders understand the nature of the organizations operations, current

state of affairs and future direction in terms of developments.

For financial reporting most countries now require that listed companies use the international financial reporting standards as a reporting framework/guideline.

The boards of directors should also disclose should also disclose the inherent risks and estimates used in preparing the financial and operating results in order to give investors a clear understanding of the board and managements' business judgment.

Benefits of disclosure

By disclosing and making transparent corporate governance policies and structures, the company gives stakeholders, the regulators and the public at large a glimpse of how the company operates and the state of its finance. This increase public trusts in the organization and improves its credibility.

➤ Public disclosure

Most countries require, by law, that listed companies disclose their financial and operational results on an annual, semi-annual or quarterly basis.

In case there is a material development that affects the operation of a company, this has to be disclosed immediately so that stakeholders are given full information on the same.

➤ Content of disclosures

The OECD principles of corporate governance recommend that disclosures include, but should not be limited to, material information on the

f. The responsibilities of the board

The corporate governance frame work should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the boards accountability to the company and shareholders.

2.2.4. Components of Effective Corporate Governance

Gregory and Simms (1999) observed that corporate governance practices vary across countries and industries, reflecting both differing societal values as well as differing ownership structures, business and competitive conditions. It can also be due to differences in the strength and

enforceability of contracts, the political standing of shareholders and debt holders as well as the development and enforcement capability of the legal system.

In the developed countries, the elements of effective corporate governance include well positioned and regulated securities markets; laws which recognize shareholders as the legitimate owners of corporations whilst at the same time ensuring the equitable treatment of minority and foreign shareholders; enforcement mechanisms protecting the rights of shareholders; laws to protect against fraud on investors; sophisticated courts and regulators; an experienced accounting and auditing sector and significant corporate disclosure requirements. In addition to this, the developed countries also have well developed private sector institutions such as organizations of institutional investors, professional associations of directors, corporate secretaries and managers, as well as rating agencies, securities analysts and a sophisticated financial press.

On the other hand, many emerging countries have not yet developed fully their legal and regulatory systems, enforcement capacities and private sector institutions required for effective corporate governance. There is in many of these countries, a need for further development of the stock exchange, systems for registering share ownership, enactment of laws for the protection of minority shareholder interests, the empowerment of a vigilant financial press, the improvement of audit and accounting standards and a paradigm shift in the mindset against the widespread tolerance of bribery and corruption as an unavoidable cost of doing business in some of these countries.

On top of differences in the stage of development of each countries legal and regulatory system, they also differ remarkably in their cultural values, which underpin their financial infrastructure as well as their chosen model of corporate governance. Greenspan (1999) in his remarks to the World Bank and the IMF Seminar Program noted that the development of financial infrastructure and all the institutions that support it is “invariably molded by the culture of a society”. In the final analysis, corporate governance and the framework underpinning it must be pertinent to each countries unique legal environment and cultural values.

According to the Millstein Report (1998), corporate governance takes place within the corporation and as such it depends very much on investors, boards and managements for its successful implementation. The report noted that for corporate governance to be effective in attracting capital, it must focus on four important areas:

- **Fairness** - ensuring the protection of shareholder rights in particular the rights of minority and foreign shareholders. These rights can be strengthened by ensuring the enforceability of contracts made by the providers of capital. In relation to this core concept, two separate principles were developed. The first principle states that ‘the corporate governance framework should protect the rights of shareholders’. This includes both their proprietary as well as their participatory rights. Effective corporate governance depends on laws, procedures and practices that protect their property right and ensure the security of ownership as well as the unfettered transferability of shares. This principle also recognizes their participatory rights on key corporate decisions such as the election of directors and the approval of major mergers or acquisitions. The second principle states that ‘the corporate governance framework should ensure the equitable treatment of all shareholders including the minority and foreign shareholders and that all shareholders should have the opportunity to obtain effective redress for violation of their rights’. This means that the legal framework should include laws that protect the rights of the minority shareholders against misappropriation of assets or self-dealing by the controlling shareholders, managers or directors.
- **Transparency** - the timely disclosure of adequate, clear and comparable information concerning corporate performance, governance and ownership. The fourth principle states that ‘the corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation including the financial situation, performance, ownership and governance of the company’. This is in recognition of the fact that both investors and shareholders need information regarding the financial and operating performance of the company as well as information about their corporate objectives and material risk exposures. This information should be prepared in accordance with internationally acceptable accounting and auditing standards and should be subject to an independent audit, which is conducted annually. The use of internationally accepted accounting standards would enhance comparability and assist both investors and analysts in comparing corporate performance and decision-making based on their relative merits. Likewise information about the company’s governance such as share ownership, voting rights, identity of board members, key executives and executive compensation is also a critical component of transparency.

➤ **Accountability-** by clarifying governance roles and responsibilities and by means of voluntary efforts to ensure the convergence of managerial and shareholder interests as monitored by the board of directors. The fifth principle states that ‘the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board as well as the board’s accountability to the company and the shareholders’. This principle implies a legal duty on the part of the directors to the company and its shareholders. The directors are said to have a fiduciary relationship to both the shareholders and the company, which requires that they avoid self-interest in their decision-making and act diligently and on a fully informed basis. This principle also recognizes the duty of the board to oversee the professional managers who have been entrusted to run the company and who are accountable to the board for the use of firm assets. Thus the board acts as a mechanism for minimizing the agency problem inherent in the separation of ownership and control. If the board is to be an effective monitor of managerial conduct it must be suitably distinct from the management in order to be objective in its assessment of management. This requires that some of the directors are neither members of the management team nor closely related to them through family or business ties. A critical aspect of effective corporate governance is the quality of the directors. Objective oversight therefore necessitates the participation of professionally competent nonexecutive and independent directors on the board. The latter must have the capability, fiduciary commitment and objectivity to provide strategic guidance and monitor performance on behalf of the shareholders. In order for the board to be able to play their roles effectively, they should meet often, at least once every three months and if possible more often. Additionally, for the non-executive directors to be effective and to ensure that independent oversight has meaning, they must have access to important information in advance of board meetings. In the developed countries, board committees have played an important role in performing detailed board work. In these countries, it is common to rely on an audit committee, remuneration committee and a nomination committee staffed either wholly or primarily with non-executive or independent directors. The four core principles of effective corporate governance enunciated by the Millstein Report (1998) namely, fairness, transparency, accountability and responsibility as subsequently expanded into the five OECD Principles of Corporate Governance require both regulation and private sector initiatives for

implementation. The former to ensure that minimum standards are met and the latter private sector effort to make sure those codes of conduct and voluntary behavior exceed the minimum legal requirements.

- **Responsibility-** by ensuring corporate compliance with other laws and regulations reflecting the extant society's values. The third principle states that 'the corporate governance framework should recognize the rights of stakeholders as established by law and encourage active cooperation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises'. This means that corporations must abide by the laws and regulations of the countries in which they operate. However, laws and regulations impose only minimal expectations as to conduct and corporations should be encouraged to act responsibly and ethically with special consideration for the interests of stakeholders particularly the employees. It is now acknowledged that socially responsible corporate conduct is consistent with the principle of shareholder wealth maximization. In numerous countries around the globe, the practice of corporate social responsibility accounting is now well established with corporations going beyond the legal requirements to provide health care and retirement benefits, financially supporting education and formulating and adopting environmentally friendly technologies. Similarly other companies strive to avoid practices, which are socially undesirable even if not prohibited under the law.

2.3. Empirical Framework

2.3.1. Corporate Governance Practices

Corporate governance systems vary considerably around the world in terms of their particular mix of mechanisms. It involves complex interaction that involves legal systems, financial and economic development, politics, history, and culture (Dojge, Karolyi, &Stulz, 2007). The relationship between corporate governance and firm performance depends on country-level and firm-specific factors. The most noticeable difference in governance systems across countries is in the ownership structure of individual firms. While there is variation in ownership structure across firms within a country, certain broad patterns are observed. In countries such as the United States and the United Kingdom, many firms are widely held by a large number of small shareholders. Elsewhere in Europe and in the developing world, including India, ownership tends to be more

concentrated, with large shareholdings by family members or by other individuals. Klapper and Love (2004) explain why country-level characteristics are vital for effective corporate governance and its impact on firm performance. They show that the optimal corporate governance system for a given economy depends on the country's financial and legal development. Importantly, their work also shows that strength of legal system and investor protection helps explain ownership structure. Ownership concentration and low level of investor protection are key features in developing countries (Arun & Turner, 2003). Many empirical studies have been conducted over the last two decades to investigate relationship between corporate governance and a firm's performance in the world. Most of the research in the area of corporate governance is done for developed economies, as rich data is available for these economies where active market for corporate control exists and the ownership concentration is low. India, like many developing countries, is characterized by relatively weak investors' protection and corporate law enforcement. It is also characterized by the ownership concentration, cross-shareholdings, pyramid structure, and the dominance of family business (Mohanty, 2004). Foreign institutional investors have identified corporate governance as a key factor affecting their willingness to invest in India. There are good reasons to postulate that the effectiveness of corporate governance might be quite different in developed and emerging markets (Saravanan, 2012). Hence, studies on the area of relationship between corporate governance and performance in context of emerging nations are essential to get better understanding of the issue. Since its financial liberalization began in 1991, India has undergone significant corporate governance reform. The Securities and Exchange Board of India (SEBI), India's securities market regulator, was formed in 1992. By the mid-1990s, the Indian economy was growing steadily, and Indian firms began to seek equity capital to finance expansion into the market spaces created by liberalization and the growth of outsourcing. The need for capital, amongst other things, led to corporate governance reform. The Confederation of Indian Industry (CII), an association of major Indian firms, issued a voluntary Corporate Governance Code in 1998, and then pressed the government to make central elements of the code mandatory for public firms, which SEBI did the following year, by adopting a reform package known as Clause 49 (Balasubramanian, Black, & Khanna, 2009). However, the policy impact of the regulations to enhance corporate governance in India in terms of improved performance of the listed companies has not been investigated sufficiently. Although some studies (Mohanty, 2004; Chakrabarti et al.,

2007; Dharmapala, 2011; Saravanan, 2012) have studied the impact of corporate governance on the firm performance, there are few studies in Indian context that examine endogenous inter-relationships among corporate governance, ownership structure, capital structure, and firm performance. Hence, this study attempts to empirically examine the extent to which corporate governance has an impact on overall firm performance in context of emerging country. The focus of the study is to examine the causal relationship between corporate governance and firm performance for publicly listed National Stock Exchange (NSE) firms and also investigate the inter-relationship between corporate governance, performance, ownership, and capital structure.

2.3.2. Board Independence and Company's Performance

Berghe and Baelden (2005) examined the issue of independence as an important factor in ensuring board effectiveness through the monitoring and strategic roles of the directors. The ultimate factor for the board independence is by acquiring enough numbers of the independent directors on board. They stated that the director's ability, willingness and board environment might lead to the independent attitude of each director. Kakabadse, Yang and Sanders (2010) narrated the effectiveness of non-executive directors in China is determined by their formal independence, information accessibility, incentives provided and competency. However, they found out that the non-executive director system in China was weak because there was too much intervention of controlling shareholders and there was a lack of understanding of the functions of non-executive directors. Johari, Saleh, Jaffar and Hassan (2008) indicated that the minimum composition of the independent director by the Malaysia Code of Corporate Governance is still not adequate enough to monitor the management. They concluded that the composition of the independent directors on the board was not associated with earning management. They found out that most of the firms in Malaysia have 1/3 or 33% of the independent directors on the board, but it did not have any effect on the earning management. Besides, Wooi and Ming (2009) indicated that the independent directors have failed in their internal monitoring role in Malaysian Government Linked Companies (GLCs). Nowak and McCabe (2008) have studied the roles of the independent directors in Australian public listed companies by interviewing 30 directors. The participating directors agreed that a majority of non-executive directors (NEDs) on the board would provide a safeguard for a balance of power or management relationship. Besides that,

there was a distinction between the boards with independent non-executive directors and non-independent directors. Independent directors would provide a variety of independent thinking, and majority of them could reduce the dangers of ‘group think’. Some researchers also analyzed the relationship of the Chief Executive Officer (CEO) with the board’s independence. Abdullah (2004) indicated there was no association between the board’s independence and the CEO’s duality with performance. Conversely, Byrd, Cooperman and Wolfe (2010) found a relationship between the attendance of outside directors and the payment of CEO remunerations for United State banking sectors. When the outside directors attend at least 75 percent of the board meetings, the CEO remuneration would be low. The independent directors who were regularly attending meetings would be better in monitoring of excessive payment to the CEO. A study by Ararat, Orbay and Yurtoglu (2010) on the board independence in controlled firms in Turkey found three main important findings. The first finding indicated there was no significant effect of board independence and equity issue. Besides, the independent directors in Turkey were less efficient in restraining related party transactions. Also, they found that there was a negative relationship and a non-relationship of independent directors and firm’s performance. The results were due to the fact that independent directors of Turkey’s listed companies were not truly independent. The independent directors had personal, financial, and social ties with the dominant shareholders and this influenced their independent judgment, thus jeopardizing their functioning as independent directors.

Relationship between Board Independence and Firm Performance

The term independent directors were used interchange with term non-executive directors and outside directors. However, not all non-executive directors are independent. The study on board independence and firm performance showed mixed results; either positive, negative or no relationship with firm performance. Few studies also look at the relationship between board independence and earning management. Firm performance is studied by using market-based measure or accounting based measures. The accounting based measure through Return on Assets (ROA), Return on Investment (ROI), earnings per share and profit measures. Meanwhile, market-based measure carried out in many studies by using Tobin’s q for market value.

The study in India showed that by having board independence did not guarantee to improve firm performance due to poor monitoring roles of independent directors (Garg, 2007). One of the vital roles of independent directors is to monitor the company’s performance and operation. Effective

monitoring mechanism in the firm could reduce agency problems. Thus, the company should appoint independent directors who could exercise proper oversight function in monitoring governance, internal control and risk management. Similarly, Hermalin and Weisbach (1991) found out no relation between firm performance and the proportion of outside directors. The study used the Tobin's q to measure the firm performance by using mixes market-based and accounting based measures. Epps and Ismail (2009) indicated that firms in United States with annually elected boards, small size boards, 100 percent independent nominating committees, and 100 percent independent compensation committees have more negative discretionary accruals. Similar with Cybinski and Windsor (2013), the independence remuneration committee may align CEO remuneration with firm performance in larger Australian Stock Exchange (ASX) as compared to smaller and medium ASX300 firms. It showed that independent directors were having a crucial function of the monitoring remuneration process of CEOs and executive directors for larger public companies, and later the remuneration paid to them commensurate with their performance. This is similar to the results found on the association of the board independence and the earning management (Johari, Saleh, Jaafar & Hassan, 2008). It showed that the board's independence was not associated with the earning management even though the proportion of independent directors on the board was one-third of the total majority. This means that even though the company had many independent directors on the board, it would not increase shareholders' return. Abdul Rahman and Mohamed Ali (2006) concluded that Malaysian companies had insignificant relationship between other corporate governance mechanisms such as the independence of the board, and the audit committee with the earnings management. It relates to the ineffectiveness of the board directors in their monitoring roles due to the dominant role of the manager and the executive directors in board matters. In Hong Kong firms, study on board committee independence and firm performance in family firm showed no association. However, there is a positive relationship between board independence and firm performance in nonfamily firms (Leung, Richardson and Jaggi, 2013). It is due to the minority of independent directors in family firms as compared to non-family firms. The recommendation by regulators on composition of independent directors on board is voluntary basis. If the company could not comply, they may explain for the non-compliance. From the results, the independent directors' views would help companies to improve their corporate performance. In contrast, a research was carried out by Abdullah (2004) in the year 1996. The study measured the

relationship between the percentages of independent directors at 412 Companies in the Main Board of KLSE with the firm's performance. It showed positive and significant correlation with returns on assets, profit margin and earnings per share. From that finding, it showed that the board's independence might contribute to the effective performance of a firm. It showed evidences that the high number of independent directors on the board influenced the company's financial performance. Therefore, it is essential to have independent directors on the board since it resulted in better firm performance. This is parallel to the functions of the independent directors to maximize shareholders' wealth. Ameer, Ramli and Zakaria (2009) have studied the association between the board composition and firm's performance of the 277 nonfinancial listed Malaysian Companies. They found out that over the period of 2002 to 2007, companies with high representation of outside and foreign directors on the board had a significant correlation with the company's better performance. They segregated the board into four types. They were classified as "bullies", "buddies", "believers", and "best of all". They found out most of the firm's board over that period could be classified as the "bullies", and the percentage of the insider directors were more than 50 percent of the total board. A study of 279 Malaysian firms listed on the KLSE and 271 Singapore firms listed on the Singapore Stock exchange for the year 2000 showed the proportion of independent directors on the Audit Committee is significant and negatively related to abnormal accruals (Bradbury, Mak and Tan, 2006). This means that the higher the number of independent directors on the audit committee, the lower the abnormal accruals which are associated with the roles of the independent directors when present in audit committee. The study on company listed on the New Zealand Stock Exchange from the period 2007-2011 showed a significant negative association between the number of non-executive directors and firm performance (Fitriya, Fauzi and Locke, 2012). It means the greater in the number of non-executive directors on the board, the lower the firm performance. The negative association may be due to high block holders' own, which makes non-executive directors become powerless in board discussion. However, they found out a significant positive association between the nonexecutive directors and Return on Assets (ROA). The non-executive directors on the board may ensure management uses the company's assets efficiently to generate income. A studied done in Pakistani's board also found a negative association between the proportion of outside directors and corporate performance. It is due to the small number of outside directors on the board (Sheikh, Wang and Khan, 2013). Board independence ensured

good corporate governance practice by the companies. Foo and Zain (2010) studied the sample of 481 Public-Listed firms in Malaysia at the end of the year 2007 for board independence, board diligence and liquidity. There was a significant association between the board independence and the disclosure of information. It means when the board was independent, it would be more transparent and would disseminate information which later results in improving the firm's liquidity.

2.3.3. Board Structure and Company's Performance

The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the corporation, such as the board, managers, shareholders and other interested parties, and details the rules and procedures for making decisions on corporate matters (Hebble and Ramaswamy , 2005).

In Malaysia, most companies are practicing the one-tier board which comprises of the non-executive directors and the executive directors. The non-executive directors are not the full-time employees as compared to the executive directors who are full-time employees and are involved in the day-to-day operation of the company. The role of the non-executive directors was as a monitoring mechanism for the performance and activities of executive directors and management. In general, the representation of non-executive directors was vital for the board's effectiveness. Therefore, the total board should consist of one-third of non-executive directors. This requirement is enforced by the Bursa Malaysia Listing Requirement in order for the board to be effective. When having only one non-executive director on the board, the director would not be able to challenge the actions of other board members and would tend to follow the majority. In the previous studies, the board composition in Malaysian context comprised of a sufficient number of independent directors on the board, whether before the Asian Financial Crisis 1997-1998 or after the Crisis. Abdullah (2004) did his study of the roles of board independence and Chief Executive Duality on firm performance of the companies on the main Board of KLSE for the financial year between 1994-1996. In the study, he found that the structures of the board in Malaysia for the three years period were dominated by the outside directors who are free from management. Thus, it means that the importance of independent directors has been realized even before the crisis. After the Asian Financial Crisis, the other

study on board composition also found that the board composition constitutes an adequate number of independent directors as stipulated in the MCCG 2000 that non-executive director should represent one-third of total board members. The study done by Wooi and Ming (2009) on 21 Malaysian Government-Linked Companies (GLCs) listed on Bursa Malaysia Main Board in year 2004 indicated that board independence ratio was 39.5% which is above the minimum requirement by Securities Commission as that of 33% of total board. Similarly, in the study on 81 property sector companies listed on the main board of Bursa Malaysia for the period 1999 to 2005, the board composition was made up about 63.4% of non-executive directors (Shakir, 2010). Therefore, it showed the awareness of the Malaysian public listed companies on the essential requirement of independent directors on the board. However, if the independent directors just merely exist and do not perform the expected roles as required by shareholders, then the functions of independent directors will be ineffective. A sufficient number of independent directors on the board did not determine such directors were able to perform their roles effectively. This could be seen when the Asian Financial Crisis occurred, which gave a significant impact to the corporate sector.

2.3.4 Board Directors' Educational Qualification and Company's Performance

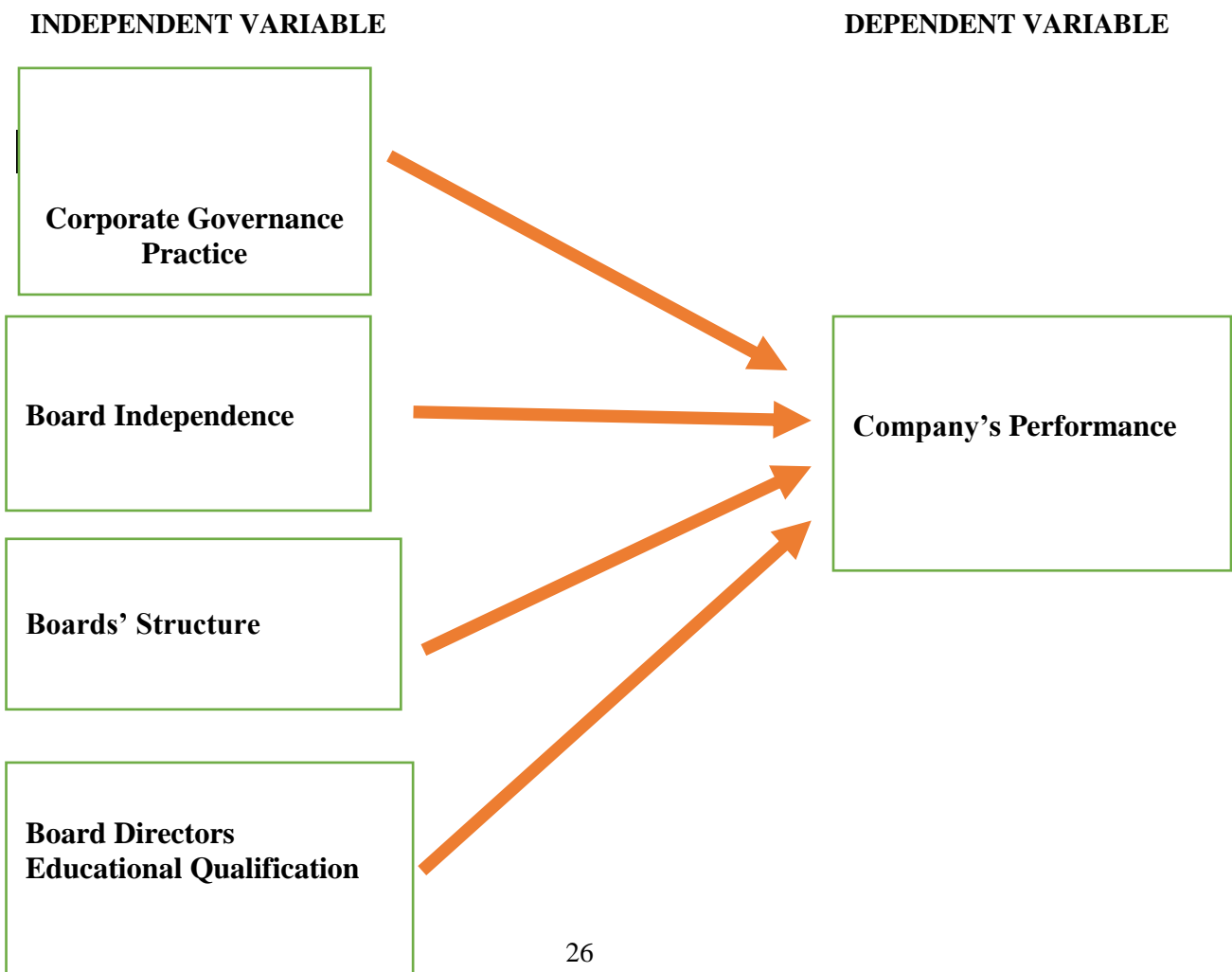
Differing qualities of educational level among board of directors and chief executive officers reflect their variety in degrees of skills and knowledge, thereby influencing board to find pretty inventive solutions to resolve complex issues. This also gives more extensive extent of inputs that enhance strategy formulation and evaluation (Ruigrok et al., 2006).

Wincent et al., (2010) argued that the boards member who have higher educational level and degrees are more likely to have greater capabilities to process information, flexibility and better opportunity to accept innovations and adopt new ideas. Frilgstein, (1987) indicated that because of facing many of the legal, technical and marketing problems in companies, the educational level of members is possible to contribute to the solution of these problems.

In the context of China, Cheng et al. (2010) show that university degrees held by the board chairman are positively associated with seven measures of performance, namely EPS, ROA, cumulative returns, cumulative abnormal returns, change in EPS, change in ROA, and market-to-book ratio. Second, a number of studies existing in the literature examine the association between the characteristics of mutual fund managers and the fund's performance. Golec (1996) provide empirical evidence that better-performing funds can be expected from those with

managers holding MBAs. Using risk-adjusting excess returns as a measure of fund performance, Chevalier and Ellison (1999) reveal that better fund performance can be expected from funds whose managers attended higher-SAT undergraduate institutions. In the context of the US, higher-SAT undergraduate institutions are generally more prestigious than their peers. Further, Gottesman and Morey (2006b) conduct a study focusing on the impact of manager education on mutual fund performance. They find that the quality of MBA programs attended by the managers, as measured by the average GMAT score and Business Week ranking, is positively associated with fund performance. It is also revealed that managers holding MBAs from top business schools are likely to show significantly better performance than those without MBAs or holding MBAs from unranked programs (Gottesman and Morey, 2006b)

2.4. CONCEPTUAL FRAME WORK



This model serves as basis for this research. The purpose of this research paper will be to find the relationship between five variables which are Corporate Governance Practice, Board Independence, Boards' Structure, board Directors' Educational Qualification and Company's Performance.

There are four independent variables Corporate Governance Practice, Board Independence, Boards' Structure, Board Directors' Educational Qualification and Company's Performance and one dependent variable which is company's performance.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Introduction

In this section the overall research methodology were described such as the methods used, the design and approach; subjects included in the study; the instruments and procedures used for data collection and the techniques employed for data analysis

3.2. Research Approach

The research approach is a logical flow or a logical path that the researcher should follow in order to conduct a research. It is the way of dealing with a particular research problem. The research approach of the study will be deductive quantitative research. Quantitative research is a means for testing objective theories by examining the relationship among variables (Creswell 2009). On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with intent of developing a theory or pattern inductively (Creswell 2009). The researcher preferred to use this approach because it is concerned with developing hypotheses based on the existing theory to test the hypotheses related to the effects of corporate governance on company's performance.

3.3. Research Design

Each research method has its strengths and weakness and certain concepts are more appropriately studied through some methods than others (Cooper & Schindler, 2008). Research design is defined as a detailed plan that explains how research is meant to be undertaken. It is a framework or blue print for conducting a research. As a matter of fact, the research design a researcher uses to conduct a study goes in line with the objective of the research and how much is known about the problem and research objectives (Sloman, 2010).

Given this, the research design to be used in conducting this study is explanatory. The researcher preferred this research design because it will help to investigate the effects of corporate governance on company's performance at Wegagen bank s.c which will help the researcher to test the pre-defined hypothesis and provides reasons in support of the hypothesis. According to

Neuman (2007), explanatory research identifies the source of social behavior, conditions, beliefs and events; it documents causes, tests theories and provides reasons. It builds on exploratory and descriptive research.

3.4. Population and sample

3.4.1. Target population/ Sampling frame

Population denotes the ecological resource about which information is wanted. It is a universe the study findings are generalized or the population to which the study is restricted. In this regard, Coopers and Schindler (2008) define population as a set of people, events or variables that can be investigated to draw a conclusion. Frankfort-Nachmias and Nachmias (1996) define a sampling frame as a list that comprises all the sampling units from which a sample can be drawn from a population of members. Thus, establishing a population that will cater for the specific needs of the researcher is very crucial in the research process. In this research, the population of the study is the management staff of Wegagen bank. The organization has 446 management staffs including branch managers. This formed the target population of the study.

3.4.2 Sampling method/technique

According to Orodho and Kombo (2002) sampling is the process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group. According to Collins and Hussey (2006), a sampling technique is a process of selecting variables from the population that represent the population. In the context of this study, sampling was necessitated by the fact that, the population was relatively large, and it would have been constraining in terms of financial and time resources to include all members of the target population in the study.

The sampling method/ technique to be employed in this study are random clustered sampling. As indicated above, this sampling method is chosen for the research because it will not be possible for the researcher to cover all members of the population that happen to be a big one, a convenient way in which a sample can be taken is to divide the area into a number of smaller non-overlapping areas and then to randomly select a number of these smaller areas (usually called clusters), with the ultimate sample consisting of all (or samples of) units in these small areas or clusters.

3.4.3 Sample design

According to Kothari (2004), a sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. Sample design may as well lay down the number of items to be included in the sample i.e., the size of the sample. Sample design is determined before data are collected. Some designs are relatively more precise and easier to apply than others. The sample design the researcher will consider for the research is probability sampling as the sample population of the study is finite and sample could be taken from the population to undertake the study via sampling technique chosen by the researcher.

As indicated above, one of the things to be considered in the sample design is determining a sample size. A sample is a subset of the study population. In other words, a sample is extracted from the target population. According to Frankfort-Nachmias and Nachmias (1996), a sample size is a group of sampling units that does not include the entire set of sampling units from the population. This gives a platform for all population in the organization to be represented. Thietart et al. (2001), also defines sample size as a set of variables from which data are collected.

In other words, a sample is a group from the population that will be representative of the population (Coopers and Schindler, 2008). The sample size of the population is: -

$$\begin{aligned}n &= N/1+N(e^2) \\446/1+446 (0.05*0.05) \\&= 211 \\n &= 211\end{aligned}$$

The sampled respondents will be drawn from the target population using stratified random sampling method.

3.5. Information type and source

The information the researcher will use for the study is both primary and secondary data. The primary data will be collected via survey from the target population of Wegagen Bank s.c. The secondary data will be collected from books and journals on the area of the study, dependable sites and publications of Wegagen bank s.c.

3.6. Data collection

According to Mugenda (2003), data collection is defined as the collection of information from a list of respondents in order to draw a conclusion. To this effect, questionnaires will be administered to the target population via survey. The questionnaire is consisted of closed-ended questions to let respondents voice their opinions without fear of contradiction. The structure of the questionnaires will be based on the research questions. It has two sections. Section I will provide general information about the respondent and Section II will address specific questions related to the effects of corporate governance on company's performance in Wegagen bank s.c.

3.7. Data analysis

To ensure easy analysis, the questionnaires will be edited, coded and checked according to each variable of the study and the margin of errors and omissions during data analysis (Kothari, 2004) by using proper SPSS techniques.

The data analysis method to be employed for this research is quantitative from Wegagen Bank s.c. The researcher will use the below multiple regression formula to analyze the data in order to address statement of the problem, answer the research questions and test the hypothesis in the research in understandable way.

$$Y = a + bX_1 + cX_2 + dX_3 + dX_4 + \epsilon$$

Where:

Y – Dependent variable

X_1, X_2, X_3, X_4 – independent (explanatory) variables

a – intercept

b, c, d – slopes

ϵ – residual (error)

The results will be presented using tables, bar graphs, pie charts etc. to give a clear picture of the research findings.

3.8. Validity

According to Kothari (2004), validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure. Validity is the extent to which differences found with a measuring instrument reflect true differences among those being tested.

The following steps will be taken to ensure the validity of the study:

- All items applied to measure constructs will adopt from validated sources from literature.
- Data will collect from the management staffs of the bank to determine the valid information.
- Data will initially clean for potential non-response, invalid answers, or any incomplete questionnaires.
- The content validity of the research study the extent to which a measuring instrument will provides adequate coverage of the topic under my study and the instruments contain a representative sample of the universe.

3.9. Reliability

According to Ticehurst and Veal (2000), reliability is the extent to which research findings would be the same if the research were to be repeated at a later date, or with a different sample of subjects. A measuring instrument is reliable if it provides consistent results.

The quality of reliability is satisfied by an instrument adopt from validated sources from literature Hair, Black, Babin and Anderson, (2010) and Cohen (2013) stated that alternative measure of reliability as internal consistency is the Cronbach's Alpha, and also frequently referred to as the Alpha coefficient of reliability. The Cronbach's Alpha provides a coefficient of inter-item correlations, that is, the correlation of each item with the sum of all the other relevant items, and is useful for multi-item scales. In this study, Cronbach's Alpha will used to measure the internal consistency of the items used. According to Hair, Black, Babin and Anderson, (2010) the general consistency of the entire scale agreed upon lower limit for Cronbach's Alpha is 0.864

Table 3.9.1 Reliability test

S.N	Variables of the study	No. of items	Cronbach's Alpha Values
1	Corporate governance practice	7	0.851
2	Board structure	6	0.871
3	Boards independence	7	0.860
4	Board educational qualification	5	0.882
5	Company's performance	8	0.854
Average value		34	0.864

3.10 Ethical Consideration

As far as the ethical consideration the researcher will comply with shared values like honesty, accuracy, efficiency, objectivity during data collection and data analysis. For the rights of the participants, the researcher will treat all the information given by customers and customer service managers keeping confidentially without disclosing the respondent's identity and will not be used for any personal interest, and assures that it will be used only for academic purpose.

CHAPTER FOUR

3. DATA ANALYSIS, PRESENTATION AND INTERPRATION

4.1. Introduction

In this chapter the researcher is trying to investigate the data analysis, data presentation, data interpretation and discussion of the findings. The first part of this chapter is demonstrating the demographic profile of the respondents using summarized tables in the forms of frequency and percentage. The next part of this chapter is elaborating data using correlation and regression analysis in the form of tables. From the total respondents 211 in Wegagen bank S.c a total of 182 respondents completed the questionnaire which is (86.25%) of the total questionnaire distributed

4.2 Demographic Characterization of the Respondents

This section concerned on the personal characterization of the management respondents of Wegagen bank s.c global bank and summary of their gender, age, academic qualification and experience of respondents in the banking industries are summarized in the following tables. These demographic variables make the research easily understand by the Readers who were involved in the study and it help to identify background of the respondents.

Table 4.2.1 Gender of respondents

		Frequency	Percent
Gender	male	93	51.1
	female	89	48.9
	Total	182	100.0

Source: own survey of 2022

In this study the researcher is trying to investigate the gender of the respondents who are participated in this survey and find the response as cited in table 4.1 above, 89 (48.9%) of the respondents are female and 93(51.1%) respondents are male from the total samples responded by the respondents. This shows that majority of the respondents who are males have the higher degree of engaging in higher position. The number of males who are in the management level in the bank are outweighing to the number of females.

Table 4.2.2 Age of respondents

		Frequency	Percent
Age	20-30	3	1.6
	31-40	76	41.8
	41-50	55	30.2
	>50	48	26.4
	Total	182	100.0

Source: own survey of 2022

From table 4.2 above, 3 (1.67%) respondents are between the age of 20-30 years, 76 (41.8%) respondents are in the age of 31-40 years old, 55 (30.2%) respondents are in the age of within the range of 41-50 years old and 48 (26.4%) respondents are above the age of 50 years old. This result shows that most of the management respondents in the survey population are in the age of 31-40 years. This implies that the bank gives managerial position to young staffs which positively impacts the human capital with optimum workforce.

Table 4.2.3 Service year of respondent

		Frequency	Percent
Year of service	6-10 years	72	39.6
	11-20 years	72	39.6
	>21 years	38	20.9
	Total	182	100.0

Source: own survey of 2022

As shown in the above table 4.3 no respondents are working less than five years, 72 (39.6%) respondents are working from 6-10 years, 72 (39.6%) respondents are working from 11-20 years and 38(20.9%) respondents are working more than 21 years in the bank. From this survey most of the respondents are working from 11 to 20 years. This indicates that the bank entertain its higher position with the degree of tenure of employees to the bank

Table 4.2.4 Position of respondent

		Frequency	Percent
Current position	managerial (branch, district)	160	87.9
	directors (department)	20	11.0
	executive mangers	2	1.1
	Total	182	100.0

Source: own survey of 2022

The above table 4.4 indicates that 160 (87.9%) respondents are managerial position, 20(11%) respondents are department directors, 2(1.1%) respondents are executive managers no respondents are board members. This result indicates that there is a large amount of managerial position in the bank.

Table 4.2.5 Academic qualification of respondents

		Frequency	Percent
Academic qualification	BA	22	12.1
	Masters	160	87.9
	Total	182	100.0

Source: own survey of 2022

The above table 4.5 indicates that 22 (12.1%) respondents are with the academic qualification of Bachelor's degree, 160(87.9%) respondents are with Master's Degree academic qualification. This result shows that most of the respondents have Master's degree which the bank privileged higher position for higher qualified human capital.

4.3. Descriptive statistics on corporate governance dimensions

Table 4.3.1 Analysis on corporate governance practice

Corporate governance practice						
No	Statement	1	2	3	4	5
		Fr.(%)	Fr.(%)	Fr.(%)	Fr.(%).	Fr.(%)
1	There are application of corporate governance principles incorporated in to the company acts	0	0	56(30.8)	105(57.7)	21(11.25)
2	The board realistically assess its performance against its objectives at regular intervals and at year end	3(1.6)	30(16.5)	71(39)	53(29.1)	25(13.7)
3	Management regularly reports to the board on key outcomes and targets that flow directly from the strategy	18(10.0)	18(9.44)	79(43.33)	57(31.67)	10(5.56)
4	The board develop and maintain effective governance policies	18(10)	16(8.8)	81(44.5)	57(31.3)	10(5.56)

5	The board of directors is responsible for the selection and appointment of senior management personnel	1(0.5)	18(10)	79(43.4)	74(40.7)	10(5.5)
6	The board depends on laws, procedures and practices to protect shareholders property right and ensure the security of ownership as well as the unfettered transferability of shares	3(1.6)	16(8.8)	81(44.5)	72(39.6)	10(5.5)
7	The corporate governance framework ensures timely and accurate disclosure on financial situation, performance, ownership, and governance of the company	18(10)	18(10)	79(43.4)	57(31.3)	10(5.5)

Source: own survey of 2022

From the above table 4.6, 56(30.8%) of respondents are neutral on the availability of application corporate governance principles, 126(69.2%) of respondents are aware of application of corporate governance principles incorporated in to the company acts. This shows that most of managerial staffs are well communicated and updated to the banks principles.

33(18.1%) of the respondent replied that the bank doesn't assess its performance against its objectives at regular intervals, 71(39%) of the respondents are neutral, the rest 79 (42.8%) of the respondents showed their agreement on the assessment of the bank to its performance against its objectives.

Similarly, 36(19.44) of the respondents shows their disagreement on regularity of reports by management to the board on key outcomes, 79(43.33%) of the respondents are neutral, 67(37.23%) of the respondents shows their agreement on regularity of reports by management to the board on key outcomes.

34(18.8) of the respondents replied that the board does not develop and maintain effective governance policies, 81(44.5%) of the respondents are neutral, 67(36.9%) of the respondents replied that the board develop and maintain effective governance policies.

19(10.5%) of the respondents replied that board of directors is not responsible for the selection and appointment of senior management personnel, 79(43.4%) of the respondents are neutral,

84(46.2%) of the respondents replied that board of directors is responsible for the selection and appointment of senior management personnel.

19 (10.5%) of the respondents disagreed on the dependence of boards on laws, procedures and practices to protect shareholders property right 81 (44.5%) are neutral, 82(45.1%)of the respondents agreed on the dependence of boards on laws, procedures and practices to protect shareholders property right.

32(20%) of the respondents show their disagreement on the framework of corporate governance which ensures timely and accurate disclosure on financial situation, performance, ownership, and governance of the company. 79 (43.4%) are neutral 67(36.8%) of the respondents show their agreement on the framework of corporate governance which ensures timely and accurate disclosure on financial situation, performance, ownership, and governance of the company.

This result shows that the bank corporate governance is transparent to its managerial staffs since transparency is pillar to corporate governance.

Table 4.3.2 Analysis on board independence

Board independence						
No	Statement	1	2	3	4	5
		Fr.(%)	Fr.(%)	Fr.(%)	Fr.(%).	Fr.(%)
1	The CEO and chairman duties are separated or a lead director is specified	0	0	56 (30.8)	105(57.7)	21(11.5)
2	The board provide an independent 'check on' corporate control	0	0	56 (30.8)	105(57.7)	21(11.5)
3	Boards are likely to foster independent decision making and to mitigate conflicts of interest	0	0	56 (30.8)	106(58.2)	20(11)
4	Independent members of the supervisory board under any obligation inform the company and its shareholders of all changes which affect their status of independence	0	0	56 (30.8)	105(57.7)	21(11.5)
5	Independent directors in the board	0	0	56 (30.8)	105(57.7)	21(11.5)

monitor the bank's performance based on the organizational strategy						
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Source: own survey of 2022

According to table 4.7, 126 (69.2%) of the respondents replied that the CEO and chairman duties are not separated, the remaining 56(30.8%) of the respondents are neutral.

126 (69.2%) of the respondents replied that the board does not provide an independent 'check on' corporate control, the remaining 56(30.8%) of the respondents are neutral.

Similarly 126 (69.2%) of the respondents show their disagreement on independent decision making and mitigating conflicts of interest of the board, the remaining 56(30.8%) of the respondents are neutral for all the remaining questions raised.

This result shows that independent members are intolerant to which affect their status of independence and the bank is engaged with the core practice of corporate governance with the participation of independent directors.

Table 4.3.3 Analysis on board structure

Board's structure						
No	Statement	1	2	3	4	5
		Fr.(%)	Fr.(%)	Fr.(%)	Fr.(%).	Fr.(%)
1	Board has the right number of meeting per year	0	0	56 (30.8)	105(57.7)	21(11.5)
2	Board of directors includes at least one independent outside directors.	3(1.6)	16(8.8)	81(44.5)	72(39.6)	10 (5.5)
3	Board members are elected annually	3(1.6)	16(8.8)	81(44.5)	72(39.6)	10 (5.5)
4	The board has outside advisors	3(1.6)	16(8.8)	81(44.5)	72(39.6)	10 (5.5)
5	All directors attended at least 75% of board meeting or had a valid excuse for non-attendance.	0	6(3.3)	52(28.6)	103(56.6)	21(11.5)
6	Members of BOD have adequate managerial experience	0	0	56(30.8)	105(57.7)	21(11.5)

Source: own survey of 2022

From the above table 4.8, 56(30.8%) of the respondents are neutral, the remaining 126(69.2%) of the respondents agreed that the board has the right number of meeting annually.

This indicates that there is a structured and regular meeting held by board members.

19(10.4%) of the respondents replied that board of directors don't have one independent outside directors, 81(44.5%) of the respondents are neutral 62(55.5%) of the respondents replied that board of directors have one independent outside directors.

19(10.4%) of the respondents showed their disagreement that board members are elected annually 81(44.5%) of the respondents are neutral, 62(55.5%) of the respondents show their agreement that board members are elected annually.

19(10.4%) of the respondents replied that the board has no outside advisors, 81(44.5%) of the respondents are neutral, 62(55.5%) of the respondents replied that the board has outside advisors.

6(3.3%) of the respondents showed their disagreement that all directors don't attended at least 75% of board meeting, 52 (28.6) of the respondents are neutral 124(68.1%) of the respondents showed their agreement that all directors attend at least 75% of board meeting,

56(30.8%) of the respondents are neutral, the rest 126(69.2%) of the respondents showed their agreement on the adequate managerial experience of members of BOD

Table 4.3.4 Analysis on board director's educational qualification

Board directors educational qualification						
No	Statement	1	2	3	4	5
		Fr.(%)	Fr.(%)	Fr.(%)	Fr.(%).	Fr.(%)
1	Board composed of directors with good mix of skills, experience and competencies can take the business to greater height	5(2.78)	10(5.0)	30(16.67)	102(54.44)	35(21.11)
2	The bank encourages board members to attend professional training programs	0	18(10.0)	99(54.44)	35(18.89)	30(16.67)
3	The academic qualification of the boards is considered during board election to the organization.	0	0	8(4.44)	52(27.78)	122(67.78)

4	The bank acts in defining criteria for required expert and professional knowledge and experience	0	2(1.1)	8(4.4)	52(28.6)	120(65.9)
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Source: own survey of 2022

From the above table 4.9, 14(7.78%) of the respondents showed their disagreement on the composition of board of directors with good mix of skills, experience and competencies, 30(16.67%) of the respondents are neutral, 136(75.55) of the respondents showed their agreement composition of board of directors with good mix of skills, experience and competencies.

This result indicates that qualified and skilled directors can shift the business to the higher place of performance.

18(10%)of the respondents replied that the bank doesn't encourage board members to attend professional training programs, 98(54.44%)of the respondents are neutral, the remaining 64(35.56)of the respondents replied that the bank encourages board members to attend professional training programs.

This result shows that the bank can boost its performance by adding value on members of the board through consistent training programs.

8(4.44%) of the respondents are neutral, 172(95.56%) of the respondents showed their agreement on the consideration of academic qualification of the boards during board election.

2(1.1%)of the respondent replied that the bank do not define criteria for required expert and professional knowledge and experience.8(4.4)of the respondent are neutral, the rest 172(94.5%)of the respondents replied that the bank acts in defining criteria for required expert and professional knowledge and experience.

Table 4.3.5 Analysis on Company's performance

Company's performance						
No	Statement	1	2	3	4	5
		Fr.(%)	Fr.(%)	Fr.(%)	Fr.(%).	Fr.(%)
1	The board reviews progress towards organizational goal achievement	3(1.6)	6(3.3)	51(28)	101(55.5)	21(11.5)
2	The board regularly reviews its alignment with organizational values	0	5(2.7)	48(26.4)	108(59.3)	21(11.5)

3	The bank maintains ongoing and strong customer relationships	0	11(6.11)	6(2.78)	30(16.67)	135(74.44)
4	The board receives regular reports on fraud and takes steps to address any failures or perceived weakness	13(7.2)	11(6.11)	55(30.56)	50(27.78)	53(28.33)
5	The board sets clear mission and vision development and overall direction to enhance organizational competitiveness	0	1(0.55)	39(21.67)	121(66.67)	21(11.11)
6	The boards contribute to the development of internal performance measures	0	6(3.33)	47(26.11)	88(48.89)	41(21.67)
7	The bank publish its annual reports of the information on its business operation and provide explanation	0	0	8(4.44)	30(16.67)	144(78.89)

Source: own survey of 2022

From the table 4.10, 9(4.9%) of the respondents showed disagreement on the review of progress towards organizational goal achievement by boards, 51(26.11%) of the respondents are neutral, 121(67%) of the respondents showed their agreement on the review of progress towards organizational goal achievement by boards.

5(2.7%) of the respondents replies that the board does not review its alignment with organizational values, 48(26.4%) of the respondents are neutral 129(70.8%) of the respondents replies that the board review its alignment with organizational values

11(6.11) of the respondents showed their disagreement on maintaining ongoing and strong customer relationships by the bank, 5(2.78) of the respondents are neutral, 164(91.11) of the respondents showed their agreement on maintaining ongoing and strong customer relationships by the bank

1(0.55%) of the respondents replied that the board don't set clear mission and vision development and overall direction to enhance organizational competitiveness 39(21.6%)of the respondents are neutral, 140(77.78%)of the respondents replied that the board set clear mission and vision development and overall direction to enhance organizational competitiveness.

6(3.33%) of the respondents show their disagreement on the contribution of development of internal performance measures 47(26.11%) of the respondent are neutral, 127(70.56%)of the respondents show their agreement on the contribution of development of internal performance measures

8(4.44%) of the respondents are neutral 172(95.56%) of the respondents replied that the bank publish its annual reports of the information on its business operation and provide explanation.

This implies that the bank reviews its progress annually which helps the bank to figure out its weakness throughout the year.

4.4 The relationship between (DV) and (IDV)

The Bivariate correlation procedure computes the pair-wise association for set of variables and displays results in matrix. It is useful the strength and direction of the association between two scale or ordinal variables. The Pearson correlation coefficient measures the linear association between two scale variables.

The correlation matrix with the dependent and independent variables allows the researcher to assess the strength of the association between the variables of interest. The correlation matrix for the Overall sample is provided below.

Table 4.4.1 Pearson correlation Correlations

		Correlations				
		Company performance	Corporate Governance practice	Board Independence	Board structure	Board directors educational qualification
Company performance	Pearson Correlation	1	.456**	.654**	.503**	.042
	Sig. (2-tailed)		.000	.000	.000	.577
	N	182	182	182	182	182

Corporate Governance practice	Pearson Correlation	.456**	1	.132	.585**	.165*
	Sig. (2-tailed)	.000		.076	.000	.026
	N	182	182	182	182	182
Board Independence	Pearson Correlation	.654**	.132	1	.498**	.228**
	Sig. (2-tailed)	.000	.076		.000	.002
	N	182	182	182	182	182
Board structure	Pearson Correlation	.503**	.585**	.498**	1	.126
	Sig. (2-tailed)	.000	.000	.000		.089
	N	182	182	182	182	182
Board directors educational qualification	Pearson Correlation	.042	.165*	.228**	.126	1
	Sig. (2-tailed)	.577	.026	.002	.089	
	N	182	182	182	182	182
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

Source: own survey of 2022

To determine the existence and level of association, the researcher used bivariate correlation. Pearson's correlation coefficient falls between -1.0 and +1.0, indicates the strength and direction of association between the two variables. (Field, 2005) The Pearson's correlation coefficient (r) was used to conduct the correlation analysis to find the level and direction of the relationships between the dimensions of corporate governance and company's performance. The classification of the correlation coefficient (r) is as follows: 0.1 – 0.29 is weak; 0.3 – 0.49 is moderate; and > 0.5 is strong.

(Field, 2005) The Bivariate correlation of a two-tailed test confirm the presence of statistically significant difference at probability level $p < 0.01$ i.e., assuming 99% confidence interval on statistical analysis. Hence all the dimensions have a strong positive relationship to company performance which is significant even at the $p < 0.01$ level.

Board independence has the highest correlation of $r = 0.654$, followed by Board structure ($r = 0.504$) and corporate governance practice ($r = 0.456$) That means, except from Board of directors educational qualification all independent variables have positive and significant correlation effect upon the level of company performance though their degree of effect varies.

The presence either positive or negative correlation leads to talk about regression. Unless Correlation is not present, we can't proceed to regression. Accordingly, all correlations discussed above are different from 0 and having positive and significant relationship, so the researcher can proceed to regression analysis.

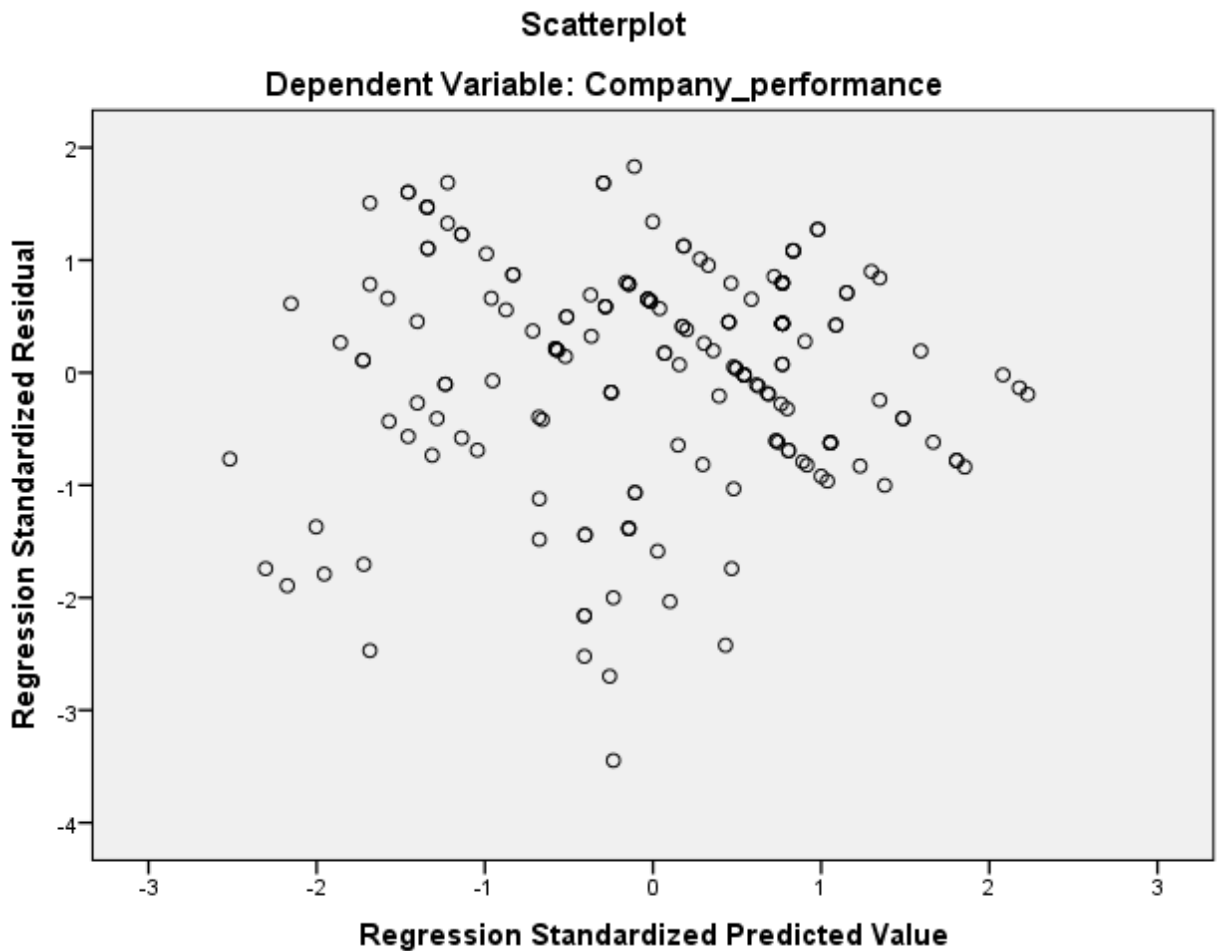
4.5 Diagnostics of Assumptions in Regression Model

4.5.1 Test of Linearity

To examine the linearity assumptions there must be a linear relationship between the dependent variable and the independent variables. According to Osborn and Waters (2002) linear relationship is a linear relation of the standardized residuals and standardized predicted values.

According to Pallant (2010), it is good idea to generate a scatter plot before performing a correlation analysis to look at the general trend of the data, since only linear relationships are suitable for correlation analysis.

For this assumption scatter plot is very representative showing that the relationship between dependent and independent variables is linear (**See figure 4.1**).



Source: own survey of 2022

As shown in the figure above, the relationship model between the dependent and independent variables fit reasonably with linear pattern, that is they are concentrated at the center line and based on the scatter plot the assumption of linearity is not violated.

The Decision- making process in linearity Test (*source internet*)

1. If value sig. Deviation from linearity > 0.05 , then the relationship between the independent variables is linearly dependent
2. If the value sig. Deviation from linearity < 0.05 the relationship is not linear.

Accordingly, the value sig. Deviation from linearity of all variables all are greater than 0.05 shows the relationship between the independent variables are linearly dependent

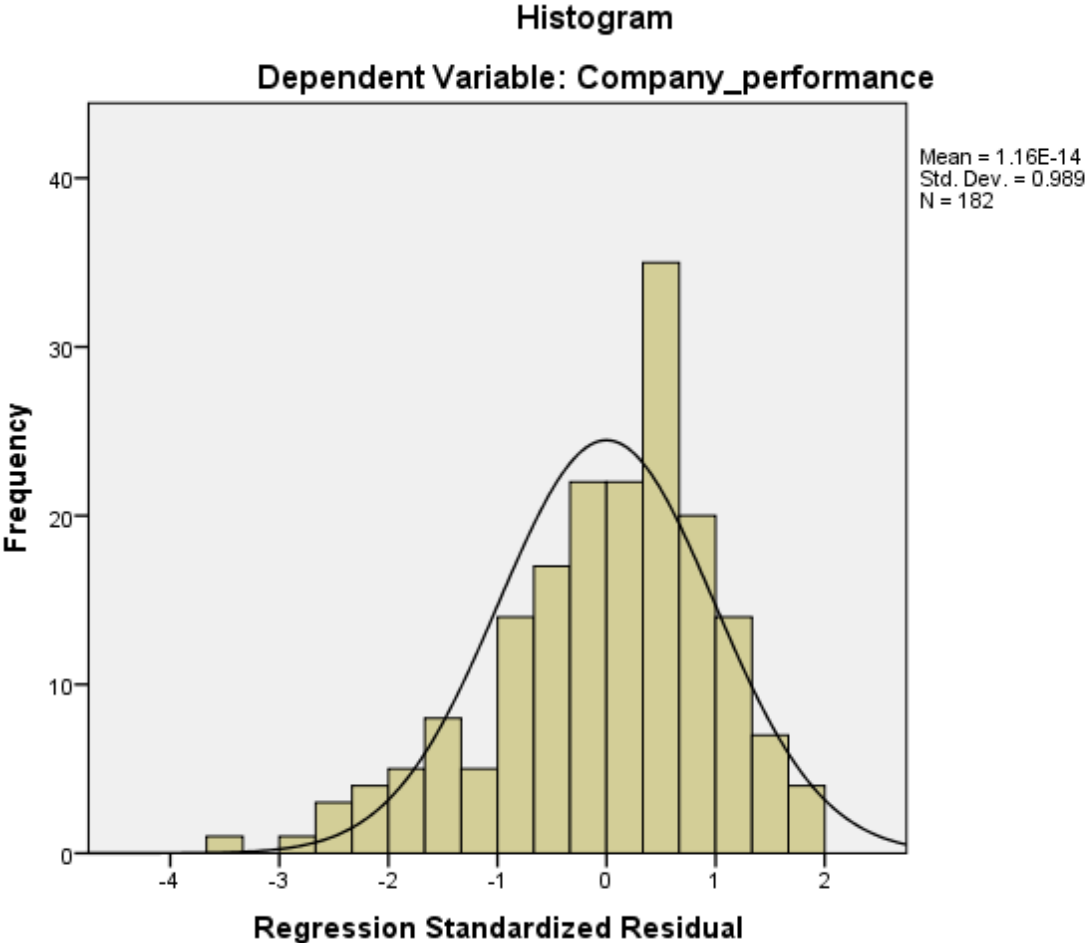
4.5.2. Test of Normality

The normality assumption can be tested by looking at the Normal Probability Plot (P-P) for the model of Regression Standardized Residual and the Scatter plot with histogram shown as part of

the analysis. The histogram in figure 4.2(a) with the normal curve looks normal and the black line in the histogram represents the bell-shaped normal curve of the sample data under the study and in the P-P plots in figure 4.2(b) also the dots are realistically nearer to the normal line. Therefore, the closer or nearer the dots to the diagonal line, the closer to normal the residuals are distributed. The combination of both inspections support that the residuals are normally distributed.

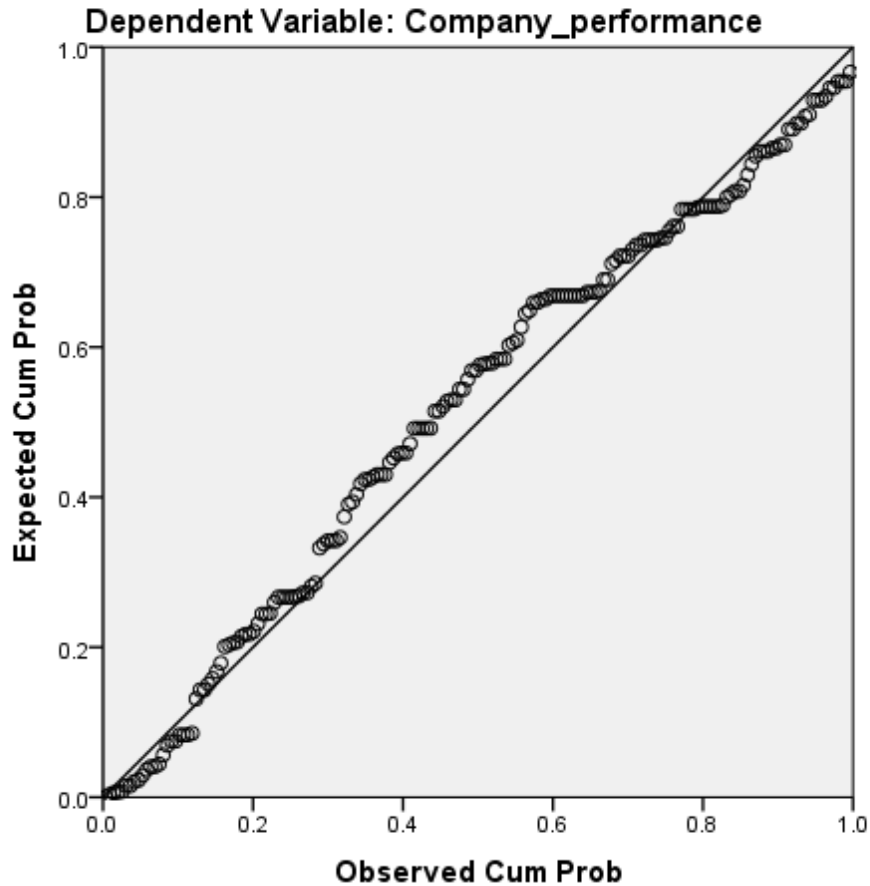
Fig 4.2: Histogram (a) and P-P plot (b) of Regression Standardized Residuals

Charts



Source: survey 2022

Normal P-P Plot of Regression Standardized Residual



Therefore, as we can see from the above histogram and normal P-P plot of regression, we can possibly conclude that the residuals are normally distributed.

4.5.3 Test of Multi co linearity

Multi co linearity occurs when there are two or more independent variables that are highly correlated with each other. Strong relationship between predictive (independent) variables is a problem of multi co linearity and not acceptable for regression analysis. Multi co linearity occurs if some or all of the predictive (independent) variables are highly correlated with each other. Multi co linearity can be tested either from the value of tolerance and Variance inflation factor (VIF) or from correlation coefficient results.

Model	Variables	Un standardized		Standardized		Co linearity	
		Coefficients		Coefficients		Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance

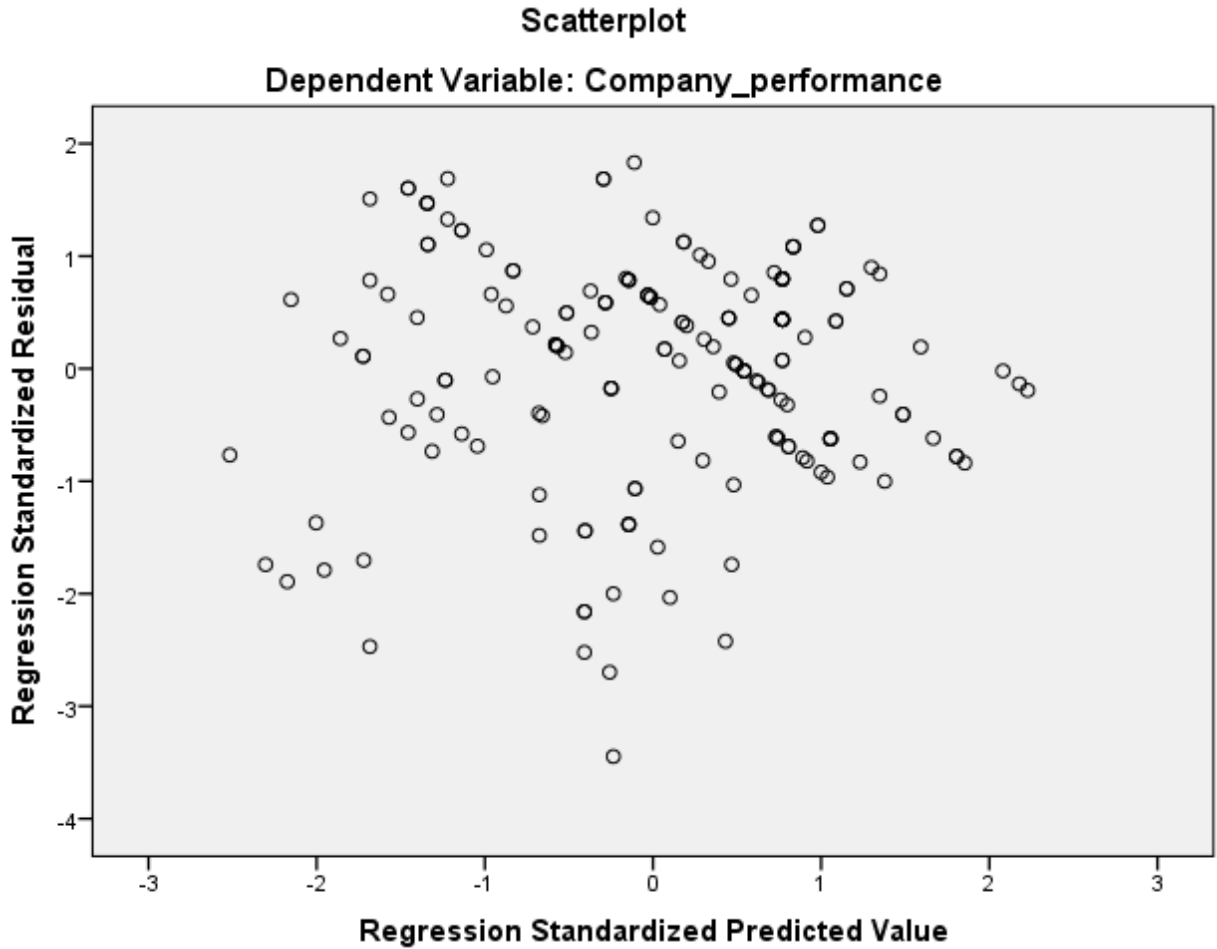
1	(Constant)	-.670	.369		-1.815	.071		
	Corporate Governance practice	.477	.075	.390	6.364	.000	.624	1.604
	Board Independence	.739	.066	.675	11.137	.000	.638	1.566
	Board structure	.102	.092	.080	-1.110	.268	.457	2.188
	Board directors educational qualification	.163	.060	.141	2.722	.007	.870	1.150

Source: own survey of 2022

The independent variables (Corporate Governance practice, Board Independence, Board structure and Board directors' educational qualification) have shown significant relationship with each other but their correlation coefficients are not too high (Seetable4.2). This indicates that no multi co linearity problem or the assumption of multi co linearity was not violated. In addition, the assumption of multi co linearity can be tested using co linearity statistics section when Tolerance and VIF values are given.

Tolerance is an indicator of how much of the variability of the specified independent variable is not explained by the other independent variables in the model. If the value of tolerance is smaller than 0.10 and the VIF values are above 10, it indicates that there is the possibility of multi co linearity. In this study however, the tolerance value for each independent variable is greater than 0.10 and the VIF values are less than 10 for all predictive (independent) variables (See table 4.10). Therefore, these results indicate that there is no multi co linearity problem, because of all tolerance values are greater than 0.10 and all VIF values are less than 10.

4.5.4. Test of Homoscedasticity and Outliers



Source: Survey 2022

Outliers can also be detected from the scatter plot. From the above Scatter plot residual, we can predict that there are no major outliers because the scatter plot points are concentrated around 0.

4.5.6. Test of Autocorrelation

Model Summary^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.765 ^a	.585	.576	.39494	.404

a. Predictors: (Constant), Board directors, educational qualification, Board structure, Board Independence, Corporate Governance practice

b. Dependent Variable: Company performance

Source: own survey of 2022

4.6 The effect of IVs on DV

After testing all the relevant assumptions of classical linear regression model for the data used, the researcher employed multiple linear regressions to examine the effect of the corporate governance dimensions (Corporate Governance practice, Board Independence, Board structure and Board directors' educational qualification) on the dependent variable, company performance. In this part, the analysis results of multiple linear regression analysis were performed Corporate Governance practice, Board Independence, Board structure and Board directors' educational qualification on company profile.

The researcher tested the four-hypothesis set out to be tested at the beginning based on the regression analysis. The researcher believes that the bank can use the result of the regression analysis for future decision making via identifying which CG dimension got the highest effect on company performance. This will answer the research question of the effect of each dimension on the dependent variable company performance.

(Table 4.13) shows CG direct effect on company performance (R square = 0.585), which means that 58.5% of the company performance was explained by the variation of the four CG dimensions.

Table 4. 6.1 Goodness of Fit – ANOVA Result

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38.963	4	9.741	62.451	.000 ^b
	Residual	27.608	177	.156		
	Total	66.571	181			

A. Dependent Variable: Company performance

B. Predictors: (Constant), Board directors educational qualification, Board structure, Board Independence, Corporate Governance practice

Source: own survey of 2022

The goodness of fit/ANOVA results of multiple linear regressions with dependent variable, company performance and the independent variables of Corporate Governance practice, Board Independence, Board structure and Board directors' educational qualification as predictors is indicated in **table 4.6.1** above.

Since the **F** test is used to determine whether a significant relationship exists between the

dependent variable and the independent variables, we refer to the **F** test as the test for overall significance. Accordingly, the model reveals a statistically significant relationship between company's performance and predictor variables, ($F=62.451$, $p < 0.05$). This implies that the model is significant.

4.7. Hypotheses Testing

H₁: Corporate governance significantly and positively affects company performance.

As per the regression analysis result of the study ($\beta=0.390$, $\text{sig} = 0.000$, $p < 0.05$). Thus, based on the result the $\text{sig} (\rho)$ value is less than 0.05 provided that H_1 is accepted.

H₂: Board independence significantly and positively affects company performance.

According to the findings of the study Board independence is positively related to company profile but do not significantly affect performance in the bank having ($\beta=0.675$, $\text{sig} = 0.000$, $p < 0.05$) Thus, based on the result the $\text{sig} (\rho)$ value is less than 0.05 provided that H_2 is accepted.

H₃: Board structure significantly and positively affects company performance.

The study finds out that the independent variables Board structure has contribution to customer performance in the bank ($\beta = 0.092$, $\text{sig} = 0.268$, $p > 0.05$) positively related with performance but not significantly affect performance because of the significant level 0.516 is greater than 5%, so H_3 rejected which is different from empirical studies.

H₄: Board of directors' educational qualification significantly and positively affects company performance.

The study finds out that the independent variables Board of directors' educational qualification has contribution to performance in the bank ($\beta = 0.060$, $\text{sig} = 0.007$, $p < 0.05$) Board of directors' educational qualification is positively related with performance Thus, based on the result the $\text{sig} (\rho)$ value is less than 0.05 provided that H_4 is accepted.

4.7.1 Summary of Analysis Result and Hypothesis Testing

Multiple linear regression analysis was used to test the analysis and hypothesis testing of the study by taking the direct effect of the independent variables and their statistical significance relation. Accordingly, the results are summarized as follows:

Table 4.7.1 Summary of Analysis result and Hypothesis Testing

No.	Hypotheses statements	Test results	Decision rule
H₁	Corporate governance significantly and positively affects company performance.	($\beta=0.390$, sig = 0.000, $p<0.05$).	Accepted
H₂	Board independence significantly and positively affects company performance.	($\beta=0.675$, sig = 0.000, $p<0.05$)	Accepted
H₃	Board structure significantly and positively affects company performance.	($\beta = 0.092$, sig= 0.268, $p>0.05$)	Rejected
H₄	Board of directors' educational qualification significantly and positively affects company performance	($\beta = 0.060$, sig= 0.007, $p<0.05$)	Accepted

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter is organized with five parts: the first part is encompasses with the introduction , the second part is summary of related findings, the third part is concluding the research finding, the fourth part is about recommendation of the finding to the stakeholder and finally, the fifth part is directions to further researches.

5.2 Summary of Research Findings

The study examined the effect of corporate governance on the performance of company from various perspectives: corporate governance practice, board's structure, board's independence, and board's educational qualification. It was discovered that the adoption of good corporate governance practices enhances transparency of company's operations, ensures accountability and improves firm's profitability. It also helps to protect the interest of the shareholders by aligning their interest with that of the managers. The results show that generally corporate governance has positive impact on all the performance indicators of an organization.

The factors of board size, board and management skill, and independence of boards, all have positive correlation with the performance of organizations.

This research employed both descriptive statistics and explanatory research to find the research result and questionnaire was prepared and distributed as a primary data source.

The regression result indicates that the presence of strong correlation between corporate governance practice, board structure, boards independence and board educational qualification with company's performance in Wegagen bank s.c.

5.3 Conclusion

The application of good governance is being increasingly viewed as a valued feature of a well-run company. Through review of the various corporate governance theories, it has become evident that the board of directors is an important component of internal governance that enables management to successfully achieve objectives and enhance the performance of these companies. Therefore, the board of directors was selected as the dominant form of corporate

governance within companies on which this study was based.

The aim of this study was to determine the relationship between corporate governance and company performance. This was achieved through defining four independent variables of corporate governance practice, board independence, board structure, board's educational qualification and dependent variable of company performance.

The overall results of this study indicate that the vast majority of board selected variables relating to corporate governance had a positive relationship with company performance. Of the four independent variables selected for corporate governance practices, board independence, board structure and board's educational qualification were found to have statistically significant relationships to the dependent variables of company performance.

Therefore, the following overall conclusions can be drawn from the test results of this study:

- Board independence allows for greater benefits and stronger monitoring provided by independent non-executive directors in acting in the best interests of the company and therein maximizing stakeholder value.
- The diversity of skills and knowledge that each director possesses, allows the board to act in the best interests of all its stakeholders. This can be seen as an indirect contribution to company performance and the long term sustainability.
- The presence and composition of the board positively contributes to company performance through providing the required objectivity, transparency and ethical practices in terms of rewarding executive remuneration in line with company performance.

5.4 Recommendation

On the basis of the findings of this study, the Researcher has drawn the following recommendations

- In this study the number of female management staffs is less than male staffs. So, companies should focus on gender diversification to harvest the competitive advantages.
- The corporate governance framework needs to ensure timely and accurate disclosure on financial situation, performance, ownership, and governance of the company to all respective stake holders of the bank.

- Corporate governance is the key role for organizational successes. So that the management of the bank should focus on developing better corporate strategies and policies.
- Since the bank acts in defining criteria for required expert and professional knowledge and experience, the bank needs to focus more in this area.
- The bank should focus in providing consistent professional training programs for board members.

5.5 Recommendation for Further Studies

This study focused on four independent defined variables related to company boards. Future research could be carried out on the intangible aspects surrounding board governance as outlined. Future research is further recommended on the emergent themes from the expert interviews which were not specifically tested for within this study.

The researcher believes that, the finding of this study is very helpful for further research in wider scope on the same or related topics and further researches are required to test with incorporating additional variables to see positive and direct relationship of corporate governance and company's performance within the organization. In order to increase representativeness as well as generality of the study to the industry at large, the scope of the study could be further broadened by incorporating samples from other banks to make a certain effect between the corporate governance and company's performance.

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APPENDICES



Addis Ababa University
College of Business and Economics
School of Commerce
Graduate Program in Business Leadership

Dear Respondents,

The purpose of this questionnaire is to collect primary data for conducting a study on the topic, **“The effect of corporate governance on company’s performance: The Case of Wegagen bank s.c”** as partial fulfillment of requirement for MA in business leadership at Addis Ababa University, College of Business and Economics, School of Commerce graduate program. In this regard, the researcher kindly requests you to provide reliable information to the best of your knowledge so that the findings from the study would meet the intended purpose. The researcher strongly assures the confidential treatment of your answers and would like to extend my deep-heart thanks in advance for being a volunteer to devote your valuable time in filling this survey.

General Guideline:

- No need to write your name
- Answer by putting a “ ✓ “mark, by circling or in writing wherever appropriate.

Contact Address:

If you have any query, please do not hesitate to contact the researcher and it would be available as per your convenience at (Tel: 09-87-71-24-28 or e-mail: Tsionabebe2004@gmail.com)

Thank you again!!!

Part I: Profile of the Respondent

1. Gender

Male Female

2. Age

20-30 30-40 40-50 50 and above

3. Year of service

5 years 5-10 years 11-20 years 21 and above years

4. Current position

managerial (branch, district) department directors

board member executive managers

5. Academic qualification:

Doctoral Degree/ PhD Master's Degree Bachelor's Degree

Other

Part II: Questions related with the effects of corporate governance on company's performance

Please respond to the following by indicating (√) on your level of agreement on each statement on the five-point scale; where 1=strongly disagree, 2= disagree, 3=Neutral, 4=Agree and 5=strongly agree

Corporate governance practice						
No	Statement	1	2	3	4	5
1	There are application of corporate governance principles incorporated in to the company acts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	The board realistically assess its performance against its objectives at regular intervals and at year end	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Management regularly reports to the board on key outcomes and targets that flow directly from the strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	The board develop and maintain effective governance policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	The board of directors is responsible for the selection and appointment of senior management personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	The board depends on laws, procedures and practices to protect shareholders property right and ensure the security of ownership as well as the unfettered transferability of shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	The corporate governance framework ensures timely and accurate disclosure on financial situation, performance, ownership, and governance of the company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Board independence						
No	Statement	1	2	3	4	5
1	The bank acts in representation of independent directors on the board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	The CEO and chairman duties are separated or a lead director is specified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	The board provide an independent 'check on' corporate control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4	Boards are likely to foster independent decision making and to mitigate conflicts of interest	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Independent members of the supervisory board under any obligation inform the company and its shareholders of all changes which affect their status of independence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Independent directors in the board monitor the bank's performance based on the organizational strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Board's structure						
No	Statement	1	2	3	4	5
1	Boards has the right number of members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Board has the right number of meeting per year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Board of directors includes at least one independent outside directors.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Board members are elected annually	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	The board has outside advisors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	All directors attended at least 75% of board meeting or had a valid excuse for non-attendance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Members of BOD have adequate managerial experience	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Board directors educational qualification						
No	Statement	1	2	3	4	5
1	Board members have the appropriate talent, experience, diversity, independence, characteristics and judgment.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Board composed of directors with good mix of skills, experience and competencies can take the business to greater height	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	The bank encourages board members to attend professional	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	training programs					
4	The academic qualification of the boards is considered during board election to the organization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	The bank acts in defining criteria for required expert and professional knowledge and experience	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Company's performance						
No	Statement	1	2	3	4	5
1	The board sets/approves the annual objectives of the organization and evaluate actual performance regularly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	The board reviews progress towards organizational goal achievement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	The board regularly reviews its alignment with organizational values	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	The bank maintains ongoing and strong customer relationships	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	The board receives regular reports on fraud and takes steps to address any failures or perceived weakness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	The board sets clear mission and vision development and overall direction to enhance organizational competitiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	The boards contribute to the development of internal performance measures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	The bank publish its annual reports of the information on its business operation and provide explanation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank you for your cooperation