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**Corporate governance practices: The case of selected Commercial Banks
in Ethiopia**

**Addis Abeba University
College of Business and Economics
Department of Management
Executive MBA Programme**

A research submitted in Partial Fulfillment of the Requirements for the
Degree master in Executive Business Administration

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DECLARATION

I, Mr. Habtamu Yoseph, Id.No. GSE/7148/10 hereby declare that this thesis entitled “Corporate Governance Practices: The case of Selected Commercial Banks in Ethiopia” submitted as a partial fulfillment of the requirements for the award of the degree of MA, in Executive Business Administration to the College of business and economics, Addis Ababa University, through the Department of management is my original work and has not been presented to the award of any degree in any university. All sorts of materials used for this thesis have been dully acknowledged.

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ACRONYMS

BOD - Board of Directors

CBE- Commercial Bank of Ethiopia

CEO - Chief Executive Officer

CFO - Chief Financial Officer

GTP- Growth and Transformation Plan

NBE- National Bank of Ethiopia

OECD – Organization for Economic Cooperation and Development

SPSS- Statically package for Social Science

Abstract

The study analyzed the corporate governance practice of selected commercial banks in Ethiopia. Both quantitative and qualitative approaches were followed using both primary and secondary sources of data. The study employed purposive and convenience sampling techniques to select study participants. A structured questionnaire was used to collect primary data and descriptive statistical techniques were used to analyze results. We found the corporate governance framework of selected commercial banks consistent with the principle. The study revealed that Board's reluctance in approving and overseeing of the bank's strategic objectives, governance framework, and risk management, Lack of professional competency from board members, lack of corporate culture, poor communication of information between the board and senior management, mismatch of remuneration structure with the bank's overall corporate governance and risk management policy and lack of timely and accurate disclosure of material and financial information are the major challenges of corporate governance practices in the selected banks.

Considering the findings, this study recommended that the existing practices of the selected banks need to ensure and improve their governance in line with OECD principles, the knowledge and skills of its board members and senior managers enhancing by continuous training and development and the selected banks should have clear picture of external stakeholders.

Key words: Corporate Governance; Disclosure and Transparency; Stakeholders; Bank

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CHAPTER ONE

1. INTRODUCTION

This study deals with practice of corporate governance with emphasis on four selected banks in Ethiopia. In this chapter, background of the study area, statement of the problem, research questions and research objectives, significance of the study, scope of the study and organization of the paper was addressed.

1.1 Background of the Study

Now a days the Corporate governance issue has become important cases for the country in general mand for organization in particular. This is because the managerial fraud, misconduct and negligence are some of the cause for the loss of shareholder wealth. According to K. baker 2010, Corporate governance is crucial to ensure the health and stability of the economy of the country and it provides cornerstones for the integrity of corporations, financial institutions & markets. Due to this factor corporate governance has become the agenda of investors, government, regulators, and many other stakeholders.

Corporate governance has a direct effect on the growth of the company and also it has effect the problems associated with the crisis of the company. It plays a vital role in maintains the company safe, soundness of the financial system, sustainable profit, and attaining the objective of the company. Because of this, the significance of corporate governance around the world has attracted the attention of regulators, academicians, and practitioners.

Good corporate governance enhances the profitability of the firm and also increases the investor goodwill and confidence as well as boosting the economic health of the corporations (Coleman, 2006; Harun, 2017)

Corporate governance includes all types of firms and its definitions could extend to cover all of the economic and non-economic activities. Regarding the definition of corporate

governance, different scholars contribute different meanings but it describes the processes, practices, and structures through which a company manages its activities to meet its financial, operational, and strategic objectives and achieve long-term sustainability. It constitutes a set of rules, the processes, customs, policies; laws, and institutions which govern the relationships between management, shareholders and stakeholders (Ching et al, 2006). It works to achieve the goal of the organization and manages the relationship among the stakeholders including the board of directors and the shareholders”(Khan 2011).

Among the three business forms, corporations are characterized as legal entities that result in the separation of owner (provider of capital) and the agent (management of the business). In publicly held companies, stockholders are separated from the control of the corporation and the control is transferred to the hands of managers. The separation of ownership and control creates a kind of principal–agent relationship between shareholders and managers (Reeve et al., 1999; Frank & Sergeja, 2007).

In a situation in which the management of the company and the owner of the business is a different person, it cannot be expected from the manager to take care of the investment as the investor does. From such a case, an agency problem may arise, which the shareholders' interest is ignored and the managers of the company run their own interest. Therefore, to avoid risk arising from an agency problem, there should be a legal framework in which the operations and pattern of decision of a corporation can be governed. The balance of the roles of shareholders, managers, the board of directors (BOD) and meeting all the obligations to a broad array of stakeholders need to be balanced in order to have a well-governed corporation. The potential problems linked with the separation of ownership and control paved the way for the field of corporate governance to emerge (Denis, 2001).

According to Adane's view (Adane et al.,2018), In Ethiopia, the corporate business form has no long history. However, the business form has been emerging in the nation's business environment over the past two decades. The reasons for corporations to flourish in the country are the presence of an ambitious growth and transformation plan (GTP), the development of diversified sources of energy projects, cheap labor, and land, and the potential market.

From a banking industry perspective, corporate governance of the banks are governed by their boards of directors and senior management that affects how they set the bank's corporate objectives, day to day operation, meeting the obligation of accountability to shareholders and stakeholders, supervisors, align corporate activities and behavior with expectation that bank operates in compliance with regulations (Basel committee on banking and supervision, 2006).

Especially, banks are important institutions for a country's economy; they are a source of finance. Like any other economic resources, financial resource is believed to be the critical input in any country's development that impeding the socio-economic development of countries like Ethiopia. (Jonathan R. and Maureen O'Hara 2003; Harun, 2017). The role of commercial banks is a key in the development of the national economy. Generally, to the proper functioning of a market economy, financial system is very fundamental and well governance is the most important issue to the development of the financial sector (Business Environment Group, 1998, Harun, 2017).

The banking sector plays very important role to the growth of capital formation and investment as well as for economic development in Ethiopia. Banks have responsibilities to like the depositors and borrowers. Therefore, proper functioning of the banks' performance is very crucial for the economic growth of Ethiopia. Considering these factors, Financial institution are regulated and controlled by the National Bank of Ethiopia. However, besides these regulations of the NBE, some corporate governance principles practices need to be performed by the banks to safeguard the interests of stakeholders (Desta & Rao, 2016).

Therefore, the issue of corporate governance deserves special attention. Hence, this study was concerned about examining corporate governance practices in selected commercial banks in Ethiopia.

1.2. Statement of the Problem

The World Bank (2006) stated that corporate governance includes internal corporate governance mechanism which focus on the priority of shareholders' interest, engage with the board of directors to oversee top management and external corporate governance mechanism

that focus on force and external regulations in order to control and oversee managers' behavior.

The factors that cause crisis is a failure of several aspect of corporate governance such as a risk management system, transparency, and disclosure (Kumar and Singh, 2013; Kumar, 2014). Hence, in most developing country like Ethiopia, the problems of poor corporate governance are the main concerns. According to Asnakech (2013) and Ayele (2013), different constraints are the cause of difficulties to ensure effective corporate governance in the banking sector of Ethiopia. Both argued that lack of well-developed corporate culture, the absence of an adequate legislative framework, political parties' involvement, inadequate shareholder protection laws and the ineffective judicial system, discrimination of regulatory rule enforcement between state-owned and private banks, lack of knowledgeable stakeholders and a culture of accepting miss-governance are some of the challenges observed in the Ethiopian banking sector. Besides, Sheikh, Wang & Khan (2013) argue that there is an existence of material effect between internal governance mechanism (board size, managerial ownership, and so on) and firm performance.

As a result, the practice of corporate governance has not been undertaken in a balanced manner along with the expansion of banks and the economic growth of the country. Hence, studying corporate governance practices in Ethiopian banks is an appropriate and priority issue. In this respect, several limitations found among past research in terms of use of study variables.

So far, most research studies have been done in the areas and some of these studies overlooked important performance variables of corporate governances in the Ethiopian banks like the exercise of shareholder right, CEO's role, employee, and other stakeholder influence are not addressed. Most of the research recommend for further studies should be conducted in the future.

Therefore, this study refers corporate governance practices in selected Ethiopian banks. The main motivation for this study's focus on examining factors and studying the practice of

corporate governance in Ethiopian private and government-owned banks, is the gap observed in extant literature by excluding certain variables deemed important by themselves.

1.3. Objectives of the Study

1.3.1 General objective

The main objective of this study was to assess the factors affecting corporate governance practice in the Ethiopian banking industry and the associated challenges. Since good governance practices are important for attracting the local and foreign capital flows through investment and it is a helpful tool to ensure the promotion of the company growth and transformation in business sectors.

1.3.2 Specific objectives

Specifically, the study aims.

1. To examine the overall corporate governance practices of the Ethiopian Commercial banks.
2. Assess the factors affecting corporate governance practices in the selected commercial bank in Ethiopia
3. To identify the challenges to the implementation of good corporate governance system within the banks

1.4 Research Questions

The study is answering the following basic research questions to realize both general and specific objectives stated so far:

1. How is corporate governance practiced in the Ethiopian banking industry?
2. what are the critical factors determine the governance practices of banks?
3. What are the challenges of practicing good corporate governance within the selected banks?

1.5. Significance of the Study

Research studies are mainly conducted either to solve practical social problems and/or add valid knowledge to the existing ones. The issue of corporate governance is very critical for an organization especially service giving organizations like commercial banks. Constructing good corporate governance system for banking sector is unsparing, because it is very much exposed to the governance problem. Good governance is not only the foundation for the ongoing existence of the company and it assures sustainable development of the business but also it fosters the national economy of the country, assurance the health and the growth of the financial market, guarantee for investors and stakeholder. Therefore, this study, in one way or another will contribute to an existing body of knowledge by showing whether principles and practices are implemented at the private and state-owned bank of Ethiopia and by identifying the major factors and challenges observed in the practice of corporate governance at this bank. Furthermore, it is expected to assist policymakers to carry out their analysis on the influence of such principles and practices. In addition, it may also be used as an entry point for further studies.

1.6. Scope of the Study

This study focusses on the assessment of factor and challenges of corporate governance and examine the practices corporate governance in Ethiopia banks. The study also depending only on the data collected from the head office and selected branches of the selected banks in Addis Ababa region.

The limitation of this study is difficulty of contacting the board members and senior management of the bank because of they are too busy.

1.7. Organization of the Study

The rest of the chapters are organized as follows; Chapter two is a presentation of the relevant literature on the subject reviewed. It looks at concepts and theories as they relate to the research topic and research questions. Chapter three describes the research methodology including data collection procedures and analytical techniques. Chapter four reports the results of the study and the discussion. Finally, a summary of the major findings, conclusion and recommendations are presented in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

This chapter develops a theoretical, empirical and conceptual framework of the research by reviewing literature in line with the general objective of the study. It composed of research works, books, articles and other sources in order to measure and understand the level of corporate governance practice in both public and private banks in Ethiopia. The chapter has been organized in the following sections. First section will discuss the major issues of corporate governance including its principles, practices factors and challenges. The second section will review and summaries previous works of different scholars on the nature of corporate governance banking sector. The third section will provide a conceptual framework of what have been discussed in the theoretical and empirical literature review.

2.1. Theoretical Literature

2.1.1 Concept and Definition of Corporate Governance

The process of Corporate governance is a complex that involves organizational, legal, economic, political, motivational, and social tools, the combination of which provides a unique working environment by minimizing the cost and reducing the gap between managers' and owners' interests. Corporate governance that reflects the political, economic, and regulatory set-ups, enforcement capacity, the legal system, and different ownership structure and business situations. To realize the corporation's long-run goals, corporate governance regulates and balances the interests of shareholders, stakeholders, and managers. Then definition of Corporate Governance can be the relationship among shareholders, board of directors, top management, employees, regulators, and other stakeholders in determining the direction and performance of the corporation (Ruin 2001).

To define Corporate governance, it is the broad term that affects the relationship of shareholders, board of directors, top management, employees, regulators, and other

stakeholders and describes the processes, customs, policies; laws, and institutions that direct the corporation's administration and control of the operations. Its purpose is to achieve the goal of the organization and also manages the relationship among the stakeholders including the BOD and the shareholder (Khan, 2011). Any decisions made by everyone need to be balanced that can be consistent with long-term, sustainable value creation for investors, employees, and the community or for the short-term benefit of one group regardless of the consequences for the others. When corporate governance operates optimally, the three key players – the executives, the board of directors, and the shareholders – provide through a system of checks and balances a system for a transparent and accountable system for promoting objectively determined goals and benchmarks “(MINOW, 2011)

Different scholars defined corporate governance differently. Rezaee (2009, pp. 306–307) defined it as “an ongoing process of managing, controlling, and assessing business affairs to create shareholder value and protect the interests of other stakeholders.” Moreover, the author identified seven important functions of corporate governance: oversight, managerial, compliance, internal audit, advisory, external audit, and monitoring. It is a means to describe effectively the rights and responsibilities of each group of stakeholders in the organization. (Denis, 2001; Ho and Wong, 2001). Corporate governance is a broad concept, and it encompasses internal factors (internal corporate governance mechanisms) and external factors (such as the legal framework and legal institutions).

The concept of the corporate governance is wide, and it goes beyond corporate administration. When we see the consideration of management, it contains science's application to the practice of administration and specific principles of management, development of management functions. Nevertheless, the idea of corporate governance is broad and includes fair, efficient, equitable, transparent and accountable administration to meet defined corporate goal. It also considers structuring, functioning and supervisory a company with a view to attaining long term planned goals to satisfy owners and stakeholders' interest and fulfill with the legal and regulatory requirements.

2.1.2 The Special Nature of Bank Corporate Governance

Banks are a special institution and demands a special attention for the reason that of the collapse of banks disturb a wider circle of participants or stakeholder's which follow-on a weak financial system which lead to hostile effects on the economy as a whole. Due to this fact, placing a special responsibility and accountability to the members of the board of directors becomes an important. The methods and approaches of corporate governance in the bank used to manage banks through the board of directors and senior management which govern how to place the bank's objectives, action and protect the interests of shareholders and stakeholders with a obligation to act in comply with existing laws and regulations.(Ibid, 2006).

The role of banks plays a key for industrial development, the corporate governance of firms, capital accumulation and distribution. The presence of appropriate functioning of the commercial banks has consequences for the good performance of firms and the prosperity of countries. If well-developed corporate governance devices are designed and applied, the bank can distribute capital efficiently and improve its financial performance. Along with effective corporate governance keeps the interests of shareholders as well as other stakeholders (Levine, 2003:(Harun 2017)

However, In banking sector, corporate governance work differently due to the regulation of government and the bank's opaque nature. evidence suggests that informational asymmetries are larger in banks than in other sectors. The real of a bank's loan portfolio is not readily and easily noticeable and it can be hidden for long periods. Moreover, the risky nature of their assets can be changed by banks more quickly; they can hide loss loan by extending loans to clients that cannot service previous debt obligations.

The regulatory needs to draw attention through heavy regulation on banks Because of the complex and sensitive role that the banks play in the economic system. Banks perform as source of finance, information brokers between investors and debtors, and payment system operators. All these characteristics of banks joined with the opaqueness of bank assets and activities forces the governments to impose heavy regulations on banks. (Ayele,2013)

Asnackech's view, (Asnackech 2013), is that "the most extreme form of government regulation of banks is ownership of banks. Government ownership of banks presents a problem for corporate governance since it creates a situation of conflict of interest between the state both in acting as an owner and a regulatory authority. The managing of the bank is also handed to bureaucrats who are unlikely to maximize firm value, but rather cater to the interests of specific groups".

The unique nature of the banking firm requires the legal protection of all stakeholder equally specially the depositor and owners of the bank. That is the main reason, the government provides clear deposit insurance and the implicit assurance of bailing out of large banks to avoid bank runs and hence continue financial system stability. (Ayele,2013)

2. 1. 3 Fundamental Corporate Governance Theories

I. Agency Theory

According to Habbash (2010), agency theory is a theory which concerned the relationship between the agent and principal(owner). The separation of ownership as of the organization's management in modern businesses provides the context for the operational of the agency theory. In modern businesses the shareholders (principals) are widely spread and they cannot involve in the day to day operations and management of their companies rather they letting the mangers to manage the business on behalf of them (Habbash, 2010). As stated by Abdullah (2009), in agency theory the agent may be inclined to self-interest, opportunistic behavior and falling similarity aspirations between the principal and the agent's pursuits. Nevertheless, agency theory was introduced basically as a separation of ownership and control.

Bhimani (2008) cited in Abdullah (2009), the management of day to day operations of the corporation is the reason that the agents appointed. However, conflict of interest between the agent and the principal may occurs when the agent act to maximize their own value and fails to act in the best interest of the principal. Such conflict of interest arises as a result of difference in their chosen level of managerial effort and management style, and their

difference towards risk approach, which may lead to the separation of goals of managers and shareholders. Therefore, to solve such agency problem, different internal and/or external control mechanisms should be put in place of the firm in order to align the interests of both.

II. Stewardship Theory

According to Davis, Schoorman & Donaldson (1997) cited in Abdullah (2009), the roots of Stewardship theory come from sociology and psychology which is defined as “*a steward protects and maximizes shareholders’ wealth through firm performance, because by so doing, the steward’s utility functions are maximized*”. According to the stewardship theory, the manager motives are aligned with the objectives of their principals shareholders and it states that managers are not motivated by self-interested goals but rather they are stewards, (Davis, J, Schoorman, D & Donaldson, L, 1997); as opposed to the agency theory which claims that conflict of interest is unavoidable between managers and shareholders except appropriate structures of control are placed to align the interests of both. (Jensen, MC & Meckling, WH, 1976).

The stewardship viewpoint suggests that when organizational success is attained, managers are satisfied and motivated even the attained success is at the expense of the stewards’ personal goals (Abdullah, H & Valentine, B, 2009). Furthermore, while the agency theory suggests that the separating the posts of board chair and CEO will protect the shareholder interests, stewardship theory argues that the assigning of same person to the posts of chair of the board and CEO to give more responsibility and autonomy to the CEO as a steward in the organization will maximized the shareholder interests .(Donaldson, L & Davis, H, 1991)

III. Stakeholder Theory

The stakeholder theory invented from the management discipline and developed to consist of corporate accountability to variety of stakeholders (Abdullah, H & Valentine, B, 2009). Stakeholder theory maintains that managers in organizations are responsible for the interests of shareholders and for a network of relationships of the company which includes the

suppliers, employees and business partners and others interested group. (Abdullah, H & Valentine, B, 2009).

According to the theory different parties affected by the decisions made regarding the company in addition to shareholder of the company. Hence, the managers should manage the company to benefit its stakeholders in order to ensure their rights and their participation in decision making and act as the stockholder's agent to safeguard the survival of the firm to keep their interest. (Fontaine, C, Haarman, A and Schmid, S, 2006).

IV. Resource Dependency Theory

According to Abdullah & Valentine (2009), resource dependency theory deal with the role of board of directors in accessing the resources required for the company. According to this theory the main function of board of directors is to provide resources to the firm. Directors are considered as the one who provide of resources to the firm, like information, skills, business expertise, access to key players such as suppliers, buyers, public policy makers, social groups and others.

The resource dependence model suggests that the board of directors could be used as a instrument to support the management by forming a link with the external environment top fill the knowledge gap , which may occurred to ensure the achievement of organizational goals (Wang, 2009).The agency theory focused on the monitoring and controlling role of board of directors whereas the resource dependency theory emphasis on the advisory and counseling role of directors to a firm management. The dual role of boards is recognized. However, board structure has relied heavily on agency theory concepts, concentrating on the control function of the board (Habbash, 2010).

2.1.4 Determinants of Internal Corporate Governance Mechanisms

A. The board of directors

The board of directors is the first level of the organization that supervise over the activities and its management. The board of directors balance the interest between the owners and the controllers of a corporation. (MINOW, 2011). It is the board responsible for the activities and achievement of the bank's goal, to keep the stability and financial soundness, to approve organization's strategy, developing policy, assigning, controlling and compensating senior executives. The powers and rules of the board are specified in the law. The mode of operation should be specified in the rules of procedure of the board (Al-Matari et al., 2012). The core competences of the board creating the foundations of the bank actions include: approving and supervision the strategic objectives and corporate values of the bank, control the work of the management and the determination of the level of the responsibilities and liability of the managements, the establishment of guiding principle for the acceptable level of risk and assessment of the adequacy and effectiveness of the system. (BCBS, 2006).

Advising and monitoring are the two most important functions of the board of directors. (Raheja, 2005; Adams & Ferriera, 2007). Zahra and Pearce (1989) classified two main roles of the board: it should regulate the operations of the firm and the actions of the CEO; and it should increase the image of the firm and sustain a good relationship between the stakeholder and firm management to boost the organization culture. This illustration that these board roles could grow the performance of a firm.

B. Size of the board of directors

The size of board is determined by the balance between two opposing needs. As the board size becomes large enough enable to accommodate the necessary skill sets and competencies, but the small size of board enable to promote effective corporate decision-making and create unity, flexibility, and effective participation (Raheja 2005).

C. Board meeting

The board meeting is a one of the duties of boards which is the means of exchanging information between board members and the company CEO to perform and control the basic activities of leadership and supervision. Effective board meetings provide useful information in a timely manner which is critical for any board's effectiveness (Arguden, 2009). To be effective, the boards of directors will be informed in advance of the agenda of meetings to be held at specific times. (Tonello, 2010). According to Vafeas (1999), as the poor performance of the firms demands an increase in the level of board activity through board meetings in order to an improvement in the firms' performance. Nevertheless, the size of the board and volatility nature of the business determined the frequency of meeting to be held by the board. business with small size and steady environment are expected to have a smaller number of meetings than large and risky businesses (Colley, et al., 2005).

D. Composition of the board of directors

In corporate governance practices, the board of directors plays an important role in planning and monitoring company's objectives (Bhagat & Bolton, 2008; Haniffa & Cooke, 2002). Therefore, an appropriate composition of directors is important in order to help the board accomplish its aim and ensure the success of the company (Al-Matari et al., 2012). It has a direct effect on the company's activities (Klein, 1998). Generally, the composition of the board refers to both inside and outside directors serving on the company as a board. The Cadbury Report (1992) indicates that the existence of non-executives should be effective in increases board independence and the performance of the firm. The Code of Best Practice suggested that the board of directors include non-executive directors of enough number and capacity to give non-executive directors an important effect on the board's decisions.

E. Audit committee

The bank should implement a reliable internal control system to provide reasonable assurance that the bank is achieving its objectives regarding reliable financial reporting,

operating efficiency, and compliance with rule, laws and regulations that monitored by the board of directors, top management, and bank's audit committee. The audit committee is a subcommittee of the main board which is responsible for supervision the company's financial reporting process. (Al-Baidhani, 27 January 2015.). The audit committee's meetings with the internal audit enhance the independence of the internal audit function, supporting the parties' discussion about management's irregularities, fraud, errors and violations. The two main activities of the audit committee are the oversight of financial reporting and the monitoring of the internal audit performance, the audit committee is required to be more than three members, of which at least two third (2/3) from external directors and at least one being financial expert. This committee confirm that accounting policies are complete and financial statements are properly organized and audited (Green, 2005). Being the presence of these experts in the firm will create a transparent and credible environment between management, external auditors and the board members.

F. Board and senior management supervision

The performance of the bank is the responsibility of a bank's board of directors and senior management. In their function of supervisors, they check to ensure that a bank is being properly administered and governed and also bring to management's attention any problems that they detect through their supervisory efforts. They should consider establishing and delivering guidance to banks on effective corporate governance and the pro-active practices need to be in place. They should also take account of corporate governance issues in establishing guidance on other topics (Basel, 1999).

G. The Role of Supervisory Authority

Regulators have play key role in achieving good corporate governance (CG) in today's business than before. As hypothesized by (La Porta et al., 2000) cited by (Keasey, 2005) the legal system is significantly important corporate governance mechanisms. They argue that the extent to which country's laws protect investor rights and are enforced. Those laws are most basic factors of the ways in which corporate finance and corporate governance grow in

that country. Their empirical evidence indicates that there are significant differences in the degree of investor protection in different countries, and those countries with low investor protection are generally characterized by a high concentration of equity ownership within firms and a absence of significant public equity markets.

For the banking organizations particularly, all regulations are intended to enforce prudential requirements on key areas of affairs of institutions to alleviate identified risks. Rule an regulations on ownership, related party transactions, and fitness and propriety tests for directors are directly based on modern corporate governance principles. It is firm's primary responsibility to ensure sound Corporate governance practice put in place. Hence, regulatory oversight is not an additional, but rather a complement to corporate governance (Adams and Mehran, 2008).

H. The Role of Stakeholders

The corporate governance framework should recognize the rights of stakeholders established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises (Basel committee for bank supervision, 2006).

According to the stakeholder theory is that a firm's achievement of its goal is based on the efficient and effective management of all of the affairs that a company has with its stakeholders (Elijido-Ten, 2009). This is supported by Christopher (2010), who argues that the stakeholder theory provides a basis that allows the management to be aware of the many needs of all stakeholder interest and to align those interests with the company's objectives. Thus, the stakeholder theory is an important factor in corporate governance and invites firms to consider the interests of stakeholders to maximize firm wealth and the combined benefits offered by all stakeholders (Donaldson & Preston, 1995). This evidence shows that the influences and functional mechanisms of stakeholders can affect a firm's ability and performance (Clarkson, 1995).

According to John and Senbet (1998), who provide a comprehensive assessment of corporate governance and the stakeholder theory in particular, in long run a company that protects the interests of all stakeholders could increase its value. Mallin (2010) identified that 'stakeholders' theory is coming more into play as companies increasingly become aware that they cannot operate in isolation and that, as well as considering their shareholders, they need also to have regard to a wider stakeholder constituency'. The firms should consider the interests of any individuals or organizations with a stake in those firms (Shao, 2010).

I. Disclosure and Transparency

Transparency and disclosure of information is essential for sound and effective corporate governance. Because of insufficient transparency, it is difficult for all stakeholders and market participants to effectively monitor and properly hold accountable the board and senior management. Transparency and disclosure of information are key attributes of good corporate governance for banking organizations to provide stakeholders with the necessary information in order to judge whether their interest is being taken care of (Anameje, 2007).

Information disclosure rules go some way to alleviating the information asymmetry between the managers and large and increasingly defused body of shareholders. The legal responsibilities of the board of directors are managing the business in compliance with the shareholders benefit and to comply with the financial reporting and other disclosure requirements stipulated by company law and country law. (Keasey, 2005).

2.2 Empirical Literature

The empirical study by Smith et al. 2005; Huse, 2007, and Mersland and Strom 2007) have found that the existence of women in the board positions have a positive effect on the firm's performance. Thus, it could be hypothesized as board diversity has positive effect on the financial performance.

Review of the literature has also revealed that presence of independent and competent audit committees has positive effect on firm performance (Anthony 2007; Cassandra et al. 2009).

Audit committee help to ensure that accounting policies are sound and financial statements are properly prepared and audited in accordance with the prescribed law. Furthermore, the presence of audit committee composed of external board members in the firm will create a transparent and credible environment between management.

Zegeye (2015) examined the relationship between corporate governance mechanisms and Microfinance Institutions financial Performance in Ethiopia and revealed that board size, educational qualification, experience in the financial sector and board meeting frequency has a significant effect on the financial performance. However, size of audit committee has a significant negative relationship with the financial performance of Microfinance Institutions. Gender composition in board, CEO duality and CEO gender does not have significant effect on the financial performance of Microfinance Institutions.

Yohannes (2016) discusses the effect of newly introduced corporate governance policy and corporate governance mechanisms on the performance of private commercial banks of Ethiopian by taking both the agency and stakeholder theories along with the corporate governance policy as a theoretical framework. According to his study, board composition, minority report, board committee structure and corporate disclosure have a significant effect on private commercial banks performance and such significance has not been altered by the newly introduced corporate governance policy.

Habtamu (2012) examined the effect of corporate governance on the performance of banks. The study applied panel data of seven Ethiopian commercial banks that covered for the period of 2004/05 to 2009/10. The results showed that, board size, gender diversity in boardroom and CEO experience are found to have negative effect on the financial performance of banks measured using ROA and ROE. Audit committee and board meeting frequency are found to positively affect ROE, with no effect on ROA. Finally board composition is found to have no effect on both financial performance measures.

Al-Hawary (2011) investigated the effect of governance mechanisms such as board size, CEO duality, percentage of non-executive directors, capital adequacy, the ownership percentage of large shareholders, and the ownership percentage of the largest shareholders of Jordanian commercial banks as measured by Tobin's Q and found that CEO duality, and

percentage of non-executive directors had statistically significant positive effect on performance; whereas leverage had statistically significant negative effect on performance.

2.3 Conceptual framework

Figure 2.1 conceptual framework of the study



Source: own construction (2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3. Introduction

In this chapter, the practical methods that were used in order to answer the research questions and meet the objectives of this research are presented. The type of research, source of data, data collection tools, population, sample size and sampling technique, data collection procedure, method of data processing and analysis was presented independently as follows:

3.1. Background of the Study Area

In this study, the researcher used non probability sampling technique, purposive sampling techniques to select the study area and four banks were selected from both government and private owned banks. The selection considers their seniority and the financial performance of the year 2018/19. As stated, the objective of this study is to assess the status of corporate governance practices of Ethiopian Banks and examine the factor and challenges of the corporate governance of Ethiopian commercial banks. Therefore, in order to get a good picture of the Ethiopia banking in practicing of corporate governance principles and to know their factors to the development of good corporate governance and the challenged associated with, the researcher takes in to consideration those banks which has long history and early established bank. Based on this facts, CBE and Debu Global banks were selected which was the longest and early history of the banking respectively. Besides My studies give more emphasis on those banks which have highest, medium and lowest financial performance in the year 2018/19. So, based on this facts, CBE, Dashen bank, Awash Banks and Debu global banks were selected.

This research utilized data that were collected from the head offices of each selected bank and branches mainly located in Addis Ababa.

3.2. Research design

This research was descriptive research design. The research chooses to apply this method in order to describe and identify the existing factors and practices of corporate governance. Descriptive study is useful when a researcher wants to look into a phenomenon in its natural situations to get its overall picture instead of taking one of its aspects and manipulating it in a simulated or an artificial setting (Seiliger and Shohamy 1989; McDonough, 1997; Harun 2017). Thus, the choice of the descriptive study design is being based on the fact that a descriptive study determines and reports the way things are.

This study was sequential mixed research approach. With a mixed approach, more of quantitative method was applied. The research chooses to apply this method in order to describe and identify the existing factors and practice of corporate governance. Therefore, it was employed both quantitative and qualitative approaches for analysis of the subject under study.

3.3. Type and Source of Data

Both primary and secondary data were collected to accomplish the objective of the study. So, the sources of data for the study were both primary and secondary. The primary data was collected from CEOs, managers, and non-managerial employees of the bank. Secondary data was collected from relevant documents like reports, newspapers and magazines; and some material downloaded from most referred web sites, National Banks of Ethiopia (NBE), and each bank's websites.

3.4. Population

The study was conducted in four commercial banks namely CBE, Dashen bank, Awash bank, Debub Global bank, purposively selected banks. The banks were selected purposively based on its seniority, better financial performance, and with the intention of filling the research gap in the Ethiopian context. The population of the study is Board of Directors, CEOs, managers, and non-managerial employees of the selected banks.

3.5 sample size

The sample is determined using the following sample determinations formula; $n = N / (1 + Ne^2)$

In which n = the size of the sample

N = the size of population (130)

e = the margin of error, 5 % (95% confidence level). By substituting the values in the above formula, sample of size ($n=98$) respondents was selected. From key interviewed as key informants, the study was asked 6 respondents purposively.

s/no	Category	Total population	Sample size
	Employee and lower level manager	130	98
	Total	130	98

3.6. Sampling techniques

In this study, the researcher used non-probability sampling techniques. Purposive sampling was used to select the study area and four banks both from government and privately owned banks. The researcher purposefully selected four banks for the study since they have better information concerning the issue under investigation. and information was gathered through a questionnaire and interviewed. The sample respondents from government and privately owned banks were selected using Convenience sampling and information was gathered through a questionnaire.

3.6. Data collection method

In this study, data were collected using questionnaires, interviews and document analysis. The data for the study was collected from both primary and secondary data sources. The secondary source of data is the audited financial statements of commercial banks as a sample over a period of 3 years (2016/17 to 2018/19), annual reports, websites, NBE directives & others.

3.7. Method of data analysis

For this study, both quantitative and qualitative method was employed to undertake the process of data analysis. In analyzing the data, the researcher was used descriptive statistical tools. The qualitative data was analyzed through narratives and used in discussions.

3.7.1. Descriptive analysis

Descriptive statistics is one of the techniques used to summarize the data collected from a sample representing of a given population. The collected data was analyzed using descriptive statistics by the help of SPSS version 21 statistical software.

3.7.2. Qualitative analysis

Information obtained through document analysis was analyzed descriptively by narrating or describing it.

3.8. Validity of Instruments

According to Kothari (2004) validity is the degree by which the sample of the test items represents the content the test is designed to measure. The questionnaire in this research went through a number of developmental stages before final distribution. The study questionnaire was examined for content validity by expert in business research and to check for grammar, the wording, sequence and structure of the questionnaire. The suggestions on the content and structure were included to improve the final draft of the instrument.

3.9. Reliability Analysis

In this research, the reliability measure was used to focus on the internal consistency of the set of statements. The researcher used the coefficient alpha score to measure the reliability of the survey questionnaire. Cronbach's alpha is the degree to which instrument items are homogeneous and reflect the same underlying construct (Cooper & Schindler, 2006). Cronbach alpha was calculated by application of SPSS for reliability analysis. The reliability analysis value of the alpha coefficient is 0.76. According to Smith et al. (2011) argue that a

reliability coefficient of 0.76 is acceptable, Thus result illustrates that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.60.

Table 1: Reliability Test

Reliability Statistics	
Cronbach's Alpha	N of Items
0.763	43

Source: Own Survey, May, 2020

3.10. Ethical consideration

The topic and the aim of the study was introduced to participants before they asked to provide information and the respondents were assured confidentiality on any information provided. Any data from any organization or relevant authority was used with their permission.

CHAPTER FOUR

RESULTS AND DISCUSSION

4. Introduction

This chapter presents empirical findings in reference to the practices of corporate governance. The findings are from the analysis of questionnaires and are presented in tables, frequencies and percentages in accordance with the objectives to be achieved. These findings were obtained from primary sources. In chapter three of the research report, it was discussed that 130 employees were taken as a total population for administering the questionnaire and 98 were selected as a sample based on the formula presented by Yamane (1967). In addition, six Executive Managers were selected purposefully to administer the interview.

4.1. Descriptive Analysis

This chapter discusses the main findings from the descriptive analysis of corporate governance practices on banking performance and other important variables using data collected from 104 respondents.

As we have seen in chapter three, the reliability analysis value of the alpha coefficient is 0.76. which is acceptable according to Smith et al. (2011). Thus, result illustrates that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.60.

4.1.1. Demographic Characteristics of Respondents

This sub-section presents the demographic profile of the respondents including age, sex, and educational background of respondents.

Table 4.1 General Background of the Respondents

Measurement		Frequency	Percent
Sex	Male	68	69.4
	Female	30	30.6
	Total	98	100
Education level	Diploma	3	3
	Degree	57	58.2
	Master	37	37.8
	PhD	1	1
	Total	103	100

Source: Own Survey, May, 2020

From table 4:1 above, 69% of the respondents were male while 31% were female. This indicates that most of the respondents are male and females only take the marginal share from the total respondents.

From table 4.1 above, results obtained indicate that diploma holders were only 3%, 1st-degree holders were 58%. While 38% have master's degree. The rest 1 % of respondents were PhD holders.

A conclusion can be made that most employees in the selected organizations are degree holders and therefore able to give positive responses to the questionnaire. This gives the organizations a competitive advantage of having qualified and skilled employees.

4.1.2 Corporate governance practice of banks

According to the Bank of Nova Scotia (2017), Corporate governance encompasses processes and policies that determine how decisions are made and how the Bank deals with the various interests of, and relationships with, its stakeholders, including shareholders, customers, employees, and the broader community.

4.1.2.1 Policy of Corporate governance

This subsection examines the respondent's perceptions regarding the governance background of the bank. Sound corporate governance policies and practices are important to the creation of shareholder value and maintaining the confidence of customers and investors alike. These policies are designed to ensure the independence of the Board and its ability to effectively supervise management's operation of the Bank.

The Policies are reviewed on an annual basis in the context of changing regulation and emerging best practices with a view to enhancing the Bank's governance. In line with this, this Section presents Survey results and discussion on policies/ procedures of corporate governance at selected banks in relation to international best practices in policy layout and assessment.

Table 4:2 Governance background of the bank

Measurement	Stat. Tool	SA (5)	AG (4)	N (3)	DA (2)	SD (1)	Total
The bank has a corporate governance policy/procedure that governs its operation on a regular basis.	Perc.	45.4	41.2	8.2	2.1	3.1	100
The policy/procedures of the bank clearly set out the selection, roles, and responsibilities of the board, senior management, and other lower-level management bodies.	Perc.	36.1	46.4	8.2	6.2	3.1	100
The policy /procedure of the bank incorporates performance and remuneration standards for senior management in line with the financial soundness of the bank.	Perct.	20.6	44.3	29.9	3.1	2.1	100
There are guidelines the bank follows in Risk management, Internal auditing, and compliance management.	Perct.	39.2	43.3	10.3	3.1	4.1	100
The policy/procedure of corporate governance allows the bank to meet its goals and objectives at the corporate level.	Perct.	31.6	50.5	11.6	3.2	3.2	100
The bank has a policy/ procedure that guides the disclosure of its material and financial information	Perct.	26.8	51.5	17.5	3.1	1	100
The policies/procedures of corporate governance are well communicated at all levels of the management in the bank.	Perct.	27.1	34.4	26	10.4	1	100
The Vision, mission, and values of the organization are clearly communicated to the staff of the bank	Perct.	47.4	35.1	13.4	1	3.1	100
The bank has ongoing program to raise employees' awareness of corporate governance issues and the role of every employee can play to strengthen the governance of the bank.	Perct.	19.6	43.3	23.7	12.4	1	100

Source: Own Survey, May 2020

From the sampled respondents, the majority of the respondents (45.4%) strongly believe that the bank is governed by a corporate governance framework at regular bases. While only 3 respondents (3.1%) strongly disagree with the existence of corporate governance policy in

the bank, the remaining respondents (8.2%) hold a neutral position. This implies that the majority of the Middle-Level Managers believe the bank's operations are governed by a corporate governance policy/ procedure.

The survey results also revealed that 46.4% and 36.1 % of the sampled respondents agreed and strongly agreed respectively that the policy clearly specified the selection procedures of the boards and their major roles and responsibilities in the system. While only 3.1% of the sampled respondents strongly disagree with the statement.

As it can be seen in the above table, 44.3% of respondents agreed with the inclusion of performance and remuneration standards of senior management at the policy, while only 2.1% of them strongly disagree with the issue that implies the corporate governance regarding policy of the bank incorporate performance and remuneration standard for those senior management in line with the soundness of the financial of the bank. The remaining 29.9% of respondents were neutral on the matter.

A question regarding the guidelines of risk management, internal auditing and compliance management at the corporate governance policy, most (44.3%) of the respondents agreed that the policy includes guidelines of risk management, Internal auditing and compliance management of the bank. while only 3.1% of respondents disagreed with the issue under study.

As it is observed from the above table, 50.5% of the respondents agreed that the current policy of corporate governance enables the bank to meet its goals and objectives at the corporate level. While 3.2% respondents disagree, 11 respondents (11.6%) remained undecided.

On the issue of communicating the policy to the concerned management, 27.1 and 34.4% of respondents strongly agreed and agreed that the policy has been communicated to all levels of the management in the bank. However, 3.1% of respondents strongly disagree with this statement, while 13.1% of respondents hold a neutral position.

With regards to disclosure and transparency, most (51.5%) of the respondents agreed that disclosure and transparency are one part of the policy and it specifies procedures that guide the disclosure of material and financial information as well as risk management and decision-making processes. Oppositely, 3 respondents (3.1%) disagree with this issue and 17 respondents (17.5%) remain undecided. Related to the corporate governance awareness program of the banks, 43.3 and 19.6% of respondents said as they agree and strongly agree with the issue respectively.

Coming to the interview results with key informants, most of these informants had recognized the inclusion of such procedures and guidelines at corporate governance policy of the bank. In the same way, concerning the guidelines of risk management, internal auditing and compliance management at the corporate governance policy, the interview result shows that all informants recognize the inclusion of risk management, internal auditing and compliance management procedures within the policy.

Regarding the selection procedures, interviewees specify that the policy doesn't include such guidelines. They further state that the selection of board members is out of the circle of corporate governance policy.

In general, the results of the above descriptive statistics show that the selected banks have a corporate governance policy that provides guidance in major internal operations by setting out the roles and responsibilities of key corporate actors, designing remuneration structure and performance management systems as well as major key functions such as risk, internal auditing, and compliance management functions. Hence, it supports the bank to achieve its goals and objectives and creates a system of check and balance across the bank.

These results are supported by OECD (1999) principles that state the policy of corporate governance must include the basic principles such as the roles and responsibilities of the board, procedures of risk and compensation management, and the guidelines of timely and accurate disclosure of material matters.

4.1.2.2 Practice of corporate governance principles in selected banks

In this subsection, we can observe respondents' view regarding the application of corporate governance principles and practices in the development of corporate governance systems with the selected banks. Effective corporate governance requires a clear understanding of the respective roles of the board, management, and shareholders; their relationships with each other and with other corporate stakeholders (Business Roundtable, 2016).

4.1.2.2.1 Board's Overall Responsibility

Table 4:3 Boards' Overall Responsibility (in percentage)

Measurement	SA	AG	N	DA	SD	Total
The Board approves and oversees the development and implementation of the bank's business objectives and strategies.	14.1	44.6	35.9	3.3	2.2	100
The Board considers the legitimate interest of depositors ² and stakeholders while discharging its responsibilities.	17.6	41.8	33	5.5	2.2	100
The Board oversees the implementation of the bank's governance framework and periodically review that it remains appropriate in the light of material changes	13	44.6	38	2.2	2.2	100
The board ensure that the risk management, compliance and internal audit functions are properly staffed and carry out their responsibilities independently and objectively	18.5	35.9	33.7	5.4	6.5	100

Source: Own Survey, May 2020

According to table 4.3, the 44.6% of the respondents agreed that the boards approve and oversees the development and the implementation of bank's business objectives and strategies. Similarly, most of the respondents (44.6%) agreed that the board review the governance framework based on material changes.

On the same table, a vast number of (41.8%) respondents agreed that the board keeps the interest of its depositors and stakeholders while discharging its responsibilities. However, 5 respondents which consist of 5.5% disagree and the rest remain undecided (33%). Likewise, many of the respondents (35.9 %) agreed that the risk, compliance, and internal audit functions are properly staffed and perform their activities independently and objectively. While 5.4% of respondents disagree with this statement, 33.7% of respondents hold a neutral position.

The OECD (1999) and Basel Committee on Banking Supervision (2015) emphasize that the board should take a responsibility in terms of reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets, and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.

As the data from the interviews shows, the BoD in detail discusses on the bank's strategy, annual plan and budget by dedicating enough time. It fully involves in the analysis and approval process of the strategy by even going to retreat some place in order to effectively decide on grand issues that needs attention. The interview result also shows that the board mainly involves in the development and approval of strategies and objectives alongside with executive management. However, none of the informants had the information, whether there is a periodic review of governance framework by the board. As to the key informants, the corporate governance framework is developed recently, and they had no information about any plans hold by the board to perform such activities in the future.

Comparing the results with the theoretical framework presented above, the board is effective in terms of fulfilling its responsibility by monitoring the development and implementation of the bank's strategy and objectives as well as ensuring the independence and professional competency of key functions.

4.1.2.2.2 Risk Management

Table 4:4 Responses towards risk management (In percentage)

Measurement	SA	AG	N	DA	SD	Total
The risk management handles ongoing monitoring of the risk-taking activities and risk exposures of the bank.	22.7	51.1	15.7	3	-	100
The bank has a risk management system and a responsible organ for identifying risks and developing risk management framework.	24.7	51.5	19.6	4.1	-	100
There is an ongoing communication about the risk issues	21.9	43.8	31.3	3.1	-	100
The bank has compliance function that advises the board (compliance committee) and senior management on the bank's compliance with applicable laws, rules, and standards	20.6	48.5	25.8	5.2	-	100

Source: Own Survey, May 2020

According to table 4:4, more than half of the respondents (73%) agreed that the risk management function handles ongoing monitoring of risk-taking activities and risk exposure of the bank. Likewise, half of the respondents 67% mention that the bank has a compliance function that advises the board and senior management on bank's compliance with applicable laws, rules, and standards. Yet, under the same subject, 5 respondents (5.2%) disagree and 25.8% of respondents remained undecided.

Regarding the communication of risk across the bank, most (65%) respondents agreed that there is an ongoing communication about the risk issues and challenges about risk-taking across the bank. While 3 respondents disagree with this subject, 30 respondents (31.3%) hold a neutral position.

The interview result indicates that, risk management and current risk exposures have been communicated between each department through reports and high importance is given to risk management by the board and senior management.

The result of descriptive statistics under this section revealed that the board and senior management along with risk management function monitor the risk-taking activities of the bank and ensures effective communication of the risk factors using reports. Moreover, the compliance function makes sure that the bank's operations are in line with applicable laws, rules, and standards. This agrees with the research findings of Ellul (2015) which states that a strong risk management function is necessary for the banking sector whose main responsibility is to identify risk factors and set out a risk-mitigating mechanism under the supervision of senior management.

Moreover, it also converges with the principles of the Basel Committee on Banking Supervision (2015) and OECD (1999) principles. According to them, the independent risk management function is a key component of the bank's second line of defense and it is responsible for overseeing risk-taking activities across the enterprise. It also stresses that a strong risk culture can be developed when there is an ongoing communication about risk issues, including the bank's risk strategy, throughout the bank.

4.1.2.2.3 Internal Audit and Compensation

Table 4:5 below presents the response of respondents on the role of internal audit at the corporate governance framework. Accordingly, about 67% of respondents agreed that the board and senior management provide a full and unconditional access to any materials of the bank to the internal audit function. However, 3.3% of respondents disagree with this statement, 28.1% of them remained undecided. On the other hand, 36 respondents (37.9%) agreed that senior management doesn't filter any data presented in the audit report to the board. Contrarily, 8 respondents (8.5%) disagree and 34 respondents (35.8%) hold a neutral position.

These results converge with the outcome attained from key informants which represents their full approval on the subject. They also added that the board and senior management is cooperative in terms of respecting the independence of Internal Audit function.

Table 4:5, Internal audit and compensation

Measurement	Stat. Tool	SA	AG	N	DA	SD	Total
The board and senior management provide the internal audit function with full and unconditional access to any records, file data and physical properties of the bank	Perct.	26	41.7	28.1	3.1	1	100
Internal audit reports are provided to the board or its audit committee without filtering of senior management	Perct.	17.9	37.9	35.8	7.4	1.1	100

Source: Own Survey, May, 2020

4.1.2.2.4 Disclosure and Transparency

Table 4:6, Disclosure and Transparency

Measurement	Stat. Tool	SA	A G	N	D A	SD	Total
The bank prepares and discloses information in accordance with accounting standards	Perct.	35.8	43.2	16.8	3.2	1.1	100
Issues regarding employees and other stakeholders, such as programs for human resource development and training are disclosed.	Perct.	10.5	38.4	33.7	6.3	1.1	100
The bank discloses full information about the members of its board, their qualification and selection process	Perct.	14.6	45.8	32.3	6.3	1	100
The bank provides channels for the dissemination of information to the relevant users on a timely basis.	Perct.	13.7	54.7	25.3	5.3	1.1	100

Source: Own Survey, May 2020

As depicted in Table 4.6 related to the banks' disclosure of information in accordance with accounting standards, most (43.2%) of the respondents were agreed as the selected banks prepare and disclose information in accordance with accounting standards. While only 1.1% and 3.2% of respondents said as they strongly disagree and disagree on the issue respectively. 16.8% hold a neutral position.

With regards to disclosure of programs for human resource development and training, most (38%) agreed that the selected banks disclose Issues regarding employees and other stakeholders, such as programs for human resource development and training. 33.7 % of the respondents hold a neutral position on the issue. The rest few (7%) respondents confirmed their disagreement.

On the other hand, a question stating whether the selected banks provide channels for the dissemination of information to the relevant users on a timely basis, more than half of the respondents 54% agreed, 25% hold neutral position and the rest 6% showed their disagreement.

A statement stating issues related to the bank's disclosure of full information about the members of its BoD, their qualification, 45.8% agreed, 32.3% of respondents were undecided.

According to the Basel Committee on banking supervision (2015), all banks should disclose relevant and useful information that supports the key areas of corporate governance. At a minimum, banks should disclose annually the recruitment approach for the selection of members of the board and material information on the bank's objectives, organizational and governance structures and policies (in particular, the content of any corporate governance or remuneration code or policy and the process by which it is implemented).

The study reflects that the banks publish their financial reports. The result from the analysis of the annual report of the banks also revealed that the banks' annual report includes information in accordance with the accounting standards and financial and non-financial disclosures.

When we come to the interview result, all informants stated that the policy includes directives that specify the disclosure of financial and other related reports to all stakeholders of the bank using either portal communication systems or through bank's magazine

4.1.2.2.5 Stakeholders

This section presents the results of respondents with regard to the role of stakeholders in the development of the corporate governance system with the banks. Accordingly, many of the respondents which accounts 66% said that stakeholder rights that are established by law are respected by the company with statement of agreed and strongly agreed. On the other hand, the rest 2.2% and 1.1% of respondents confirm their disagreement with the statement by saying disagree and strongly disagree respectively.

As shown in the table below concerning the performance enhancement mechanism of the bank, almost more than half of the respondents (62%) agreed with the statement. And 28.6% of respondents hold a neutral position on the statement. But the rest of the respondents 6.6% and 2.2% were disagreed and strongly disagreed respectively.

In relation to a statement which concerns whether the stakeholders have the opportunity to obtain an effective response for the violation of their rights, around 54% showed their agreement, 42.2% of the respondents were unable to decide, and only the rest 3.3% confirm their disagreement on the issue.

On the other hand, the study finding indicate that majority (53.8%) of respondents agreed that stakeholders have the right to right to obtain sufficient and reliable information on a timely basis. 28.6% of respondents were undecided, and only the rest 3.3% showed their disagreement on the statement.

As far as stakeholder's free communication is concerned, more than 46% of respondents approved that Stakeholders have the opportunity to freely communicate their concerns about illegal or unethical practices to the BoD in selected banks. 44% of the respondents chose the uncertain option to this statement.

In relation to a statement which asks if the bank has a representative of employees on the BoD, more than half (54%) of the respondent showed their agreement, while around 20% of the respondents confirmed their disagreement. The rest 25% were uncertain about this statement.

According to the result obtained from interview, the bank’s governance practice by establishing stakeholders’ responsiveness mechanisms. The continuity and profitability of the bank depends on the satisfaction of the stake holders. The Bank’s major stake holders are customers, government, employees, development partners and National Bank of Ethiopia. The National banks monitor the effectiveness of the commercial bank’s governance practices by making sure that such stakeholders’ needs are addressed.

Table 4:7, Role of stakeholders in corporate governance in percentage

Measurement	SA	AG	N	DA	SD	Total
Stakeholder rights that are established by law are respected by the company.	31.9	34.1	30.8	2.2	1.1	100
Performance-enhancing mechanisms for employee participation are permitted to develop	20.9	41.8	28.6	6.6	2.2	100
Stakeholders have the opportunity to obtain effective redress for violation of their rights.	12.2	42.2	42.2	3.3	-	100
Stakeholders have the right to obtain sufficient and reliable information on a timely basis.	14.3	53.8	28.6	2.2	1.1	100
Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board	13.2	33	44	7.7	2.2	100
The bank has representatives of the employee on the board	15.5	38.9	25.6	11.1	8.9	100

Source: Own Survey, May 2020

4.1.2.2.6 Role of senior management in the banks

This section intends to investigate responses concerning the supervision of the managements of the selected bank

Table 4:8 Role of senior management in the selected banks in percentage

Measurement	SA	AG	N	DA	SD	Total
The management of the bank motivates employees to perform their duties at their highest capabilities	50	33.3	16.7	-	-	100
The management of the bank regularly observes the implementation of policies and procedures and takes appropriate actions when employees break rules.	33.3	66.7	-	-	-	100
The management of the bank develops individual values, institutional values, and behavioral expectations to support the implementation of the goals, strategies, and plans that are established for appropriate processes	33.3	66.6	-	-	-	100
The management of the bank develops clear and flexible career paths and focus on career development and retention.	33.3	33.3	16.7	16.7	-	100
Key executives of the bank disclose material interests in any transaction or matter directly affecting the company	33.3	50	16.7	-	-	100

Source: Own Survey, May 2020

As shown in the table above, concerning employees' motivation of the bank that performs their duties at their highest capabilities, half of the respondents showed their agreement. The rest 16.7 % of respondents hold a neutral position on the statement.

On the other hand, the study found out that all (100%) of respondents confirmed that the management of the bank regularly observes the implementation of policies and procedures and takes appropriate actions when employees break rules. Similarly, 100 % of the total respondents approved that the management of the bank develops individual values,

institutional values, and behavioral expectations to support the implementation of the goals, strategies, and plans of processes.

Regarding the statement which asks if the management of the bank develops clear and flexible career paths and focus on career development and retention, the majority 66.6% of respondents agreed on the issue. While 33.3% of the respondents confirmed their disagreement and undecided.

The study also found out that, the vast majority (83.3%) of respondents agreed that Key executives of the bank disclose material interests in any transaction or matter directly affecting the company. The rest 16.7% of respondents hold a neutral position.

4.1.3 Factors affecting corporate governance practices in banks

Corporate governance comes from the top of the company, and it includes the management of internal affairs as well as managing the links with external ones (Akram et.al, 2014). As agents of financial institutions, boards and senior management bear the responsibility of ensuring that regulatory policies translated into operational practices. Rules must be embedded into the day-to-day business and operations that suit an institution's business environment.

Good corporate governance will not emerge from mere compliance with regulatory checklists as each financial institution is different and unique. With careful introspection, each individual institution needs to reflect on whether its governance arrangements, practices, and business models are effective and still relevant. In doing so, each institution must continuously assess and take into consideration the nature, scope, and scale of its business (Ibrahim, 2014). Hence, this section presents the major internal and external factors that affect financial institutions in developing good corporate governance.

Table 4:9 factors that affect the corporate governance of banks

What factors affect the corporate governance of your bank?	Stat. Tool	SA	AG	N	D	SD	Total
The presence of a female in the BOD (in terms of boards diversity)	Perct.	12.9	29	32.3	9.7	15.1	100
The education qualification of Boards of Directors	Perct.	22.6	41.9	25.8	6.5	3.2	100
Size of the boards	Perct.	20.4	34.4	30.1	10.8	4.3	100
Strategic Planning and Performance of the bank	Perct.	33.3	38.7	20.4	5.5	1.1	100
The imposition and implementation of global regulatory reforms.	Perct.	20.7	38	32.6	7.6	1.1	100

Source: Own Survey, May 2020

According to table 4:9, majority of the respondents agreed that internal factors that include board size (54.4%), board diversification (41.9%), and professional competency (64.5%) of the board and senior management, and the practice of strategic planning and performance of the banks (72%) affects the policies and practices of corporate governance of the bank.

In addition, it is also forwarded that external factors including the imposition of global regulatory forms (58.7%) are the major determinants of the current policy and practices of corporate governance in the bank.

According to the interview result, members of the BoD have a BA/MA and one member has a PhD which is way beyond the requirements put by the NBE. The NBE directive SBB/54/2012 requires at least 75% of board members to have minimum first degree qualification with minimum requirement to be completion of high school. In effect, the local requirement also promotes educated people to hold seats of directorship in the banking industry. Furthermore, key informants during the interview stated that the involvement of

government in the key activities determines the success of the newly developed corporate governance framework of the bank

In summary, the descriptive statistics show that factors involving the board, senior management, and external regulatory reforms affect the policy and practice of corporate governance of the bank. This was supported under the study conducted by Bathulah (2008), Akram et.al (2014), Maingi (2016), and Yenesew (2012). Moreover, Ibrahim (2014) stated that the burden of "extraterritorial" laws and regulatory requirements and the complexity of operations as financial institutions grow in size and expand abroad could be the other influential factors that affect corporate governance of banks.

4.1.4. Challenges of good corporate governance practice

Another aim of this study was to explore and analyze different challenges of the banks in developing and implementing its corporate governance framework. According to Ibrahim (2014), good governance ultimately depends on the existence of strong and competent boards and a pool of professional senior management. To remain effective, the board of directors and senior management must play an important role in improving firm financial performance and driving the corporate governance agenda forward. One important lesson we ought to learn is that weak governance causes the failure of financial institutions.

Table 4:10 Challenges of Corporate Governance

Measurement	Stat. tool	SA	AG	N	DA	SD	Total
Board's reluctance in approving and overseeing management's implementation of the bank's strategic objectives, governance framework, and risk management.	Perc t.	30.1	49.5	20.4	-	-	100
Lack of corporate culture that reinforces appropriate norms for responsible and ethical behavior.	Perc t.	17.6	41.8	33	5.5	2.2	100
Lack of professional competency from board members to understand their corporate governance role.	Perc t.	21.5	43	28	4.3	3.2	100
Poor communication of information between the board and senior management in a timely and accurate manner	Perc t.	14.1	44.6	35.9	3.3	2.2	100
Mismatch of remuneration structure with the bank's overall corporate governance and risk management.	Perc t.	25.8	47.3	20.4	4.3	2.2	100
Lack of timely and accurate disclosure of material and financial information regarding the governance of the bank.	Perc t.	17.2	47.3	22.6	5.4	7.5	100

Source: Own Survey, May 2020

Respondents were asked about the challenges of good corporate governance practice. Accordingly, Board's reluctance in approving and overseeing of the bank's strategic objectives, governance framework and risk management (79.6%), Lack of professional competency from board members (64.5%), Lack of corporate culture (59.4%), Poor communication of information between the board and senior management (58.8%), Mismatch of remuneration structure with the bank's overall corporate governance and risk management (73.1%) and Lack of timely and accurate disclosure of material and financial information (64.5%) are the major challenges of corporate governance in the bank.

Coming to the interview result, executive managers state that, such standards are part of the policy framework and it clearly specifies the tools to be applied while conducting these activities at departmental and corporate level. In addition to this, Interview result shows that high political interference from the government, the mix of state faction with that of ownership faction from the government and NBE, lack of participation of employees to be

an independent candidate for board membership on full time base, lack of board willingness to take the role and responsibilities stated in the corporate framework and the tightening of corporate governance laws, regulations and NBE directives are the challenges forwarded by key informants

In general, the results of the above descriptive statistics indicates the major challenges of the bank in developing good corporate governance and this has been reflected in previous researches by different scholars. A study conducted by Asnakech (2013) states that one of the bigger problems in corporate governance of the Ethiopian banking sector is the blending of politics with the industry. Hence, she specified that “it is highly probable that business decisions are being made solely on political justification rather than sound business principles”. Ibrahim (2014), in his study also states that the success of any corporate governance framework depends on professional competency and harmonization of the board and senior management.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study, conclusion and recommendation for corporate governance practice: the case of selected commercial bank of Ethiopia. Data analysis and conclusions were made in line to the study objective which was to determine the effect and factor of corporate governance in Ethiopian Commercial Banks.

5.2. Summary

This section presents the result of the respondents of the selected bank regarding to the objectives of the study.

1. Policy of Corporate governance

In general, the results of the above descriptive statistics show that the selected banks have a corporate governance policy that provides guidance in major internal operations by setting out the roles and responsibilities of key corporate actors, designing remuneration structure and performance management systems as well as major key functions such as risk, internal auditing, and compliance management functions. Hence, it supports the bank to achieve its goals and objectives and creates a system of check and balance across the bank. These results are supported by OECD (1999) principles that state the policy of corporate governance must include the basic principles such as the roles and responsibilities of the board, procedures of risk and compensation management, and the guidelines of timely and accurate disclosure of material matters.

2. Practices of CG principles in the selected bank

we can observe respondents' view regarding the application of corporate governance principles and practices in the development of corporate governance systems with the

selected banks. Effective corporate governance requires a clear understanding of the respective roles of the board, management, and shareholders; their relationships with each other and with other corporate stakeholders (Business Roundtable, 2016).

-The board is effective in terms of fulfilling its responsibility by monitoring the development and implementation of the bank's strategy and objectives as well as ensuring the independence and professional competency of key functions. Which supported by the theoretical framework presented (The OECD (1999) and Basel Committee on Banking Supervision (2015),

-The result of descriptive statistics under risk management section revealed that the board and senior management along with risk management function monitor the risk-taking activities of the bank and ensures effective communication of the risk factors using reports. Moreover, the compliance function makes sure that the bank's operations are in line with applicable laws, rules, and standards. This agrees with the research findings of Ellul (2015) which states that a strong risk management function is necessary for the banking sector whose main responsibility is to identify risk factors and set out a risk-mitigating mechanism under the supervision of senior management.

-The results of Internal audit & compensation converge with the outcome attained from key informants which represents their full approval on the subject. They also added that the board and senior management is cooperative in terms of respecting the independence of Internal Audit function.

-The study reflects that the banks publish their financial reports. The result from the analysis of the annual report of the banks also revealed that the banks' annual report includes information in accordance with the accounting standards and financial and non-financial disclosures.

3. Factors affecting CG practices

In summary, the descriptive statistics show that factors involving the board, senior management, and external regulatory reforms affect the policy and practice of corporate

governance of the bank. This was supported under the study conducted by Bathulah (2008), Akram et.al (2014), Maingi (2016), and Yenesew (2012). Moreover, Ibrahim (2014) stated that the burden of "extraterritorial" laws and regulatory requirements and the complexity of operations as financial institutions grow in size and expand abroad could be the other influential factors that affect corporate governance of banks.

4. challenges of good CG practices

In general, the results of the above descriptive statistics indicates the major challenges of the bank in developing good corporate governance and this has been reflected in previous researches by different scholars. A study conducted by Asnakech (2013) states that one of the bigger problems in corporate governance of the Ethiopian banking sector is the blending of politics with the industry. Hence, she specified that "it is highly probable that business decisions are being made solely on political justification rather than sound business principles". Ibrahim (2014), in his study also states that the success of any corporate governance framework depends on professional competency and harmonization of the board and senior management

5.3 CONCLUSION

The overall objective of the study is to identify the factors and challenges of good corporate governance and examining corporate governance practice in selected commercial banks of Ethiopia. From the analysis of the data, the following conclusions were identified.

The study examined the practice of corporate governance in selected banks. Consequently, study finds that the selected banks are found to have operated in accordance with the OECD principles. The principles outline the major roles and responsibilities of board of directors, senior management as well as lower level management.

Regarding the practical application of international principles of corporate governance at selected banks of Ethiopia, the bank performs well in spite of some problems in the role of senior management. From the findings of the study, the management of banks was needed to develop clear and flexible career paths and did not focus on career development and retention

as planned. Furthermore, they also failed to motivate employees to perform their duties at their highest capabilities. Some members of the senior management effective to perform their duties and hence may not fit to the post. This may result in over burden on those who are committed and may hence have a dis-incentive effect on same.

The governance practice recognized the importance of stakeholders within the selected banks. However, the recognition paid to their free communication about illegal or unethical practices and representation to the board was too low. The results identified the gap in banks corporate governance with regard to the role of some stakeholders. Selected banks also have OECD consistent practice with regard to Disclosure and Transparency Principle. Overall, the governance framework of selected commercial banks is consistent with the principle.

In the second objective, the study examined the factors that affect corporate governance practices of selected banks. Consequently, study finds that internal factors that includes board size, board diversification, and professional competency of the board and senior management, and the practice of strategic planning and performance of the banks affects the policies and practices of corporate governance of the bank. In addition, it is also forwarded that external factors including imposition of global regulatory forms are the major determinants of the current policy and practices of corporate governance in the bank. In general, it was learnt by the findings of this study that, factors involving the board, senior management and external regulatory reforms affect the policy and practice of corporate governance of the bank.

Lastly, the study investigated the challenges to the implementation of good corporate governance system within the banks. In this regard, the study revealed that Board's reluctance in approving and overseeing of the bank's strategic objectives, governance framework and risk management, Lack of professional competency from board members, Lack of corporate culture, Poor communication of information between the board and senior management, Mismatch of remuneration structure with the bank's overall corporate governance and risk management and Lack of timely and accurate disclosure of material and financial information are the major challenges of corporate governance in the bank.

5.4 RECOMMANDTION

Considering the above findings, the existing practices of banks need to ensure and improve their governance in line with OECD principles. To supplement the practice and address its gaps, the corporate governance framework of selected banks is suggested with the following recommendations.

- For any corporation to have effective governing body, the knowledge and skills of its board members and senior managers are very crucial. One way of enhancing this is by enabling them with continuous training and development programs to the current principles and practices of corporate governance. The banks need to qualify its directors and managements with training in accordance with the Corporate Governance.
- The selected banks need to understand and fully adopt OECD practice in their governance framework.
- The selected banks should have clear picture of external stakeholders that are found to have considerably high-level influence in their corporate governance.
- Disclosure of information is one of the most severe problems the industry is facing in terms of good CG practices. Only Financial performance of the bank is disclosed. But other non-financial disclosures like a short report on the activities of the board committees, full information about the members of its board, their qualification, and other company directorship and selection process must be disclosed. The NBE shall make a meaningful change towards the importance of this big milestone to bring a culture that will help the industry as well as the country by introducing non-financial information to be part of a disclosure requirement.

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Appendix. Questionnaires

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

Department of Management- Executive Master of Business

Research questionnaire

Dear Respondent,

I am attending EMBA program at Addis Ababa University. This questionnaire is prepared to conduct a research on the title “Assessment of Corporate Governance practices on banking performance in case of Commercial Banks in Ethiopia ' as a partial fulfillment of the requirements for the Executive Masters of Business Administration, Addis Ababa University, College of Business and Economics.

As you are a member of your organization, your participation in this study will be valuable and greatly appreciated. The information you supply would be used for academic purpose only and will be kept confidential.

All you need to do is to complete this questionnaire, which should not take you more than 10 minutes. Your responses will be kept strictly confidential. Should you have any questions or concerns regarding completing the questionnaire, please call 0984871293 or email to habtamuy2017@gmail.com

Thank you in advance for your time and effort in completing this survey questionnaire.

Best Regards,

Habtamu Yoseph

Section One

The following questions concern about your personal information.

Part I

1. General Questions

1. Gender: Male Female
2. Highest level of education: secondary and below Diploma Degree
Masters PhD

PART II

Please kindly answer the following questions by indicating your choice on the scale of 1-5,

1= strongly disagree, 2= disagree 3= Uncertain 4= Agree 5= strongly agree

Completion of this information is voluntary, and its confidentiality is assured. No individual data will be reported

2. Assessment of Corporate governance practices of the bank

no	1. statement	5	4	3	2	1
1	The bank has a corporate governance policy/ procedure that governs its operation on regular basis.					
2	The policy/procedures of the bank clearly set out the selection, roles, and responsibilities of the board, senior management, and other level management bodies.					
3	The policy /procedure of the bank incorporates performance and remuneration standards for senior management in line with the financial soundness of the bank.					
4	There are guidelines the bank follows in Risk management, Internal auditing, and compliance management.					

5	The policy/procedure of corporate governance allows the bank to meet its goals and objectives at the corporate level.					
6	The bank has a policy/ procedure that guides the disclosure of its material and financial information					
7	The policies/procedures of corporate governance are well communicated at all levels of the management in the bank.					
8	The Vision, mission, and values of the organization are clearly communicating to the staff of the bank					
9	The bank has ongoing program to raise employees' awareness of corporate governance issues and the role of every employee can play to strengthen the governance of the bank.					

2. Internal Control, Risk and Compliance management						
1	The risk management handles ongoing monitoring of the risk taking activities and risk exposures of the bank.					
2	The board and senior management provide the internal audit function with full and unconditional access to any records, file data and physical properties of the bank					
3	There is an ongoing communication about the risk issues and challenges about risk-taking across the bank.					
4	The bank has compliance function that advise the board (compliance committee) and senior management on the bank's compliance with applicable laws, rules and standards					
5	Internal audit reports are provided to the board or its audit committee without filtering of senior management					
6	The bank has a risk management system and a responsible organ for identifying risks and developing risk management framework.					

3. Disclosure and transparency

1	The bank prepares and discloses information in accordance with accounting standards and financial and non-financial disclosure.					
2	Issues regarding employees and other stakeholders, such as programs for human resource development and training are disclosed.					
3	The bank discloses full information about the members of its board, their qualification, and other company directorship and selection process					
4	The bank provides channels for the dissemination of information to the relevant users on a timely basis.					

Part III. Statements of factors that affects the corporate governance practices in the bank

	What factors affect the corporate governance of your bank?	5	4	3	2	1
1	The presence of female in the BOD (in terms of boards diversity)					
2	The education qualification of Boards of Directors					
6	Size of the boards					
7	Strategic Planning and Performance of the bank					
9	The imposition and implementation of global regulatory reforms.					

4. The role and responsibility of Board

	Measurement	5	4	3	2	1
	The Board approves and oversees the development and implementation of bank's business objectives and strategies.					
	The Board considers the legitimate interest of depositors and stakeholders while discharging its responsibilities.					

	The Board oversees implementation of the bank’s governance framework and periodically review that it remains appropriate in the light of material changes					
	The board ensure that the risk management, compliance and internal audit functions are properly staffed and carry out their responsibilities independently and objectively					

5. Role of stakeholders in corporate governance

Measurement	5	4	3	2	1
Stakeholder rights that are established by law are respected by the company.					
Performance-enhancing mechanisms for employee participation are permitted to develop					
Stakeholders have the opportunity to obtain effective redress for violation of their rights.					
Stakeholders have the right to obtain sufficient and reliable information on a timely basis.					
Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board					
The bank has representatives of employee on the board					

6. Role of senior management in the selected banks

Measurement	5	4	3	2	1
The management of the bank motivates employees to perform their duties at their highest capabilities					
The management of the bank regularly observes the implementation of policies and procedures and takes appropriate actions when employees break rules.					
The management of the bank develops individual values, institutional values, and behavioral expectations to support the implementation of the goals, strategies, and plans that are established for appropriate processes					
The management of the bank develops clear and flexible career paths and focus on career development and retention.					
Key executives of the bank disclose material interests in any transaction or matter directly affecting the company					

7. Challenges of Corporate Governance

Measurement	5	4	3	2	1
Board's reluctance in approving and overseeing management's implementation of the bank's strategic objectives, governance framework, and risk management.					
Lack of corporate culture that reinforces appropriate norms for responsible and ethical behavior.					
Lack of professional competency from board members to understand their corporate governance role.					
Poor communication of information between the board and senior management in a timely and accurate manner					
Mismatch of remuneration structure with the bank's overall corporate governance and risk management.					
Lack of timely and accurate disclosure of material and financial information regarding the governance of the bank.					

\Please state your comment, if you have

END OF QUESTIONNAIRE

Thank you very much for your participation