ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS

MANAGEMENT OF BUSINESS ADMINISTRATION PROGRAM

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ETHIOPIA

BY

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DECLARATION

I, Kokeb Million Eshete**,** declared that this thesis titled "Corporate Governance and Financial Performance of Commercial Banks in Ethiopia" was done entirely by me under the supervision of Dr. Jemal Mohammed. The thesis has not been presented, either wholly or partly, for any degree elsewhere before. All sources of scholarly information used in this thesis were duly acknowledged.

Name: Kokeb Million ___ Signature ________________ Date ________________

STATEMENT OF CERTIFICATION

This is to certify that thesis entitled, ***"Corporate Governance and Financial Performance of Commercial Banks in Ethiopia"***, undertaken by Kokeb Million for the partial fulfillment of degree of Master of business administration in Management at Addis Ababa University, to the best of my knowledge, is an original work and not submitted earlier for any degree either at this University or any other University

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This is to certify that the thesis prepared by Kokeb Million, entitled: *Corporate Governance and Financial Performance of Banks: A Study of Commercial Banks in Ethiopia* and submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration in Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

Corporate governance is an old age concept which provides for a set of transparent relationships between an institution's management, its board, shareholders and other stakeholders. This paper investigates the impact of corporate governance mechanisms on firms' financial performance using five years data from the year 2012 to 2016 with total population of the study consists of 19 banks operating in Ethiopia and using purposive sampling technique and select a sample of fifteen Ethiopian commercial banks. Return on asset was used as the financial performance indicator. Corporate governance mechanisms considered in this study include board size, frequency of board meeting, board gender diversity, availability of separate risk management committee in the board, and level of corporate governance disclosure. The study controls the effect of bank size and financial leverage. The Pearson Correlation and the regression analysis were used to find out whether there is a relationship between the corporate governance variables and firms performance. In examining the level of corporate governance disclosures of the sampled banks, content analysis was applied to determine the level of disclosure using un-weighted checklist and a disclosure index was developed by adapted from (Ranti U. O., 2011) *which is guided by UNCTAD- ISAR (United Nations Conference on Trade and Development/International Standards of Accounting and Reporting) benchmark of corporate governance disclosure items, the NBE code and OECD code of corporate governance. The study therefore observed that a negative relationship exists between board gender diversity and availability of separate risk management committee and the financial performance of these banks, while a positive relationship was also noticed between frequency of board meeting and performance. Finally, the board size and level of corporate governance disclosure does not have a statistically significant effect. The study suggests that importance of increasing board meetings. Also, steps should be taken to encourage commercial banks to disclose corporate governance information.*

Keywords: *Corporate Governance Mechanisms, Disclosure Index, Financial Performance, Commercial Banks and Ethiopia*

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Table of Contents

List of Tables

List of Figures

ABBREVIATIONS AND ACRONYMS

BGD	Board Gender Diversity
BJ	Bera-Jareque
BOD	Board of Directors
BS	Bank Size
BZ	Board Size
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CGD	Corporate Governance Disclosure
CGDI	Corporate Governance Disclosure Index
CRO	Chief Risk Officer
EADN	East Asian Development Network
FBM	Frequency of Board Meeting
EC	Ethiopian Calendar
ERM	Enterprise Risk Management
FEM	Fixed Effect Model
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
ISAR	International Standards of Accounting and Reporting
MENA	Middle-Eastern North Africa
NBE	National Bank of Ethiopia
REM	Random Effect Model
ROA	Return on Asset
ROE	Return on Equity
RMC	Risk Management Committee
SRMC	Separate Risk Management Committee
UNCTAD	United Nations Conference on Trade and Development
US	United States of America

CHAPTER ONE

1. Introduction

1.1. Background of the study

Corporate governance is an age old concept which provides for a set of transparent relationships between an institutions management, its board, shareholders and other stakeholders (Kotnal, 2016)

The international financial landscape is changing rapidly; economics and financial systems are undergoing traumatic years. Globalization and technology have continuing speed, financial arenas are becoming more open with new products and services being invented and regulators everywhere are scrambling to assess the changes and master the turbulence. (Ranti & Samuel, 2012). According to (Ranti & Samuel, 2012) (as cited in (Kaheeru, 2001) in this brave world, one fact remains unchanged. There is a need for countries to have sound resilient banking systems with good corporate governance, which will strengthen and upgrade the institution, to survive in an increasing open environment.

Corporate governance is gaining center stage in the recent times due to failure of corporate and wide dissatisfaction among with the way corporate works and hence become a widely discussed topic worldwide (Kotnal, 2016).

According to (Naushad & Malik, 2015) agency problem is not new to the corporates. Primarily; it resulted from the split-up of ownership from management. They conclude that firms with greater agency problem performed poorly.

The separation of ownership and control in business leads to a potential conflict of interest between directors (agent) and shareholders (owner) which gives rise to the 'Principal-Agent Problem' which is key area of corporate governance focus. According to (Kaplan, 2015) as the result of several high profile corporate collapses, caused by over-dominant or 'fat cat' directors, there has been a very active debate about the power of boards of directors and how stakeholder (not just shareholders) can seek to ensure that directors do not abuse their power.

Accordingly various reports have been published, and legislation has been enacted, in the UK and US, which seek to improve the control that stakeholders can exercise over the board of directors of the company.

Corporate governance refers to the system by which companies are directed and controlled in the interests of shareholders and other stakeholders (Kaplan, 2015)

According to (Kaplan, 2015) corporate governance has both purpose and objectives:

- ‘The basic purpose of corporate governance is to monitor those parties with in a company which control the resources owned by investors’
- ‘The primarily objective of sound corporate governance is to contribute to improved corporate performance and accountability in creating a long term shareholders value.’

Corporate governance is therefore, about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster good corporate governance. (Ranti & Samuel, 2012)

The global financial crises of 2007 has again fierce the debate over the relationship of corporate governance and performance of firms specially banks. (Naushad & Malik, 2015).

As it was reported by (Andreson, 2012) for OECD corporate governance alone is not the causes of the financial crises. However, corporate governance could have prevented some of the worst aspects of the crises had effective governance operated throughout the period of time during which the problems were developing and before they crystallized. Furthermore, he concludes that effective corporate governance could have helped to reduce the catastrophic impacts that the global and national economics are now suffering.

According to (Manini & Abdillahi, 2015) the importance of corporate governance is distinguishing feature of the new economy. As economies are becoming knowledge and technology based, the corporate governance mechanisms elements are becoming fundamentals determinants of a firm’s current and future performance as well as firm value and growth.

Corporate governance is now recognized as a paradigm for improving competitiveness and enhancing efficiency and thus improving investors’ confidence and accessing capital (Kotnal, 2016)

Despite the importance of good corporate governance practices and policy, little attention has been paid to the research of corporate governance mechanisms in less developed economies in general and particularly in Ethiopia.

1.2. Statement of the problem

The commercial banking sector was chosen for this study for two reason; firstly even though information asymmetries exist in all sectors it is larger in banking industry.. This greater informational asymmetry between insiders (Bank Management) and outsider (Shareholders and Depositors), and the opacity of their assets and activities in banking sector amplifies the agency problem. Thus it requires giving special attention for bank corporate governance mechanism. Secondly, banks are corporations which activate different areas of business. Banks have dominant position in developing economic financial systems, and are important engines of economic growth (Manini & Abdillahi, 2015) as cited in (Levine, 1997). Hence; banking failure would affect the entire financial system and economy (Manini & Abdillahi, 2015). According to (Abid, Khan, Rafiq, & Alia, 2014) corporate governance has become the major concern for managing firms in complex environment. Stakeholders are losing confidence due to high profile and unexpected collapses around the globe due to complexity. In fact, as yet, the complex corporate structures continue to be a persistent factor for corporate failures.

According to (Kotnal, 2016) banks and financial institutions are backbone of the economic sector of any country. The healthy economic condition of a nation is depicted through the sound functioning of its banks. Banks from a crucial link of a country's economic sector hence they are universally regulated industry and their wellbeing is imperative for the economy.

Working of banks is different from other corporate in many important respect, and that makes corporate governance of bank not only different but also critical. Hence corporate governance is conceptually different for banks. If a corporate fallouts can be restricted to the stakeholders, but if a bank fails, the impact can spread rapidly through other banks with potentially serious consequences for the entire financial system and the macro economy (Kotnal, 2016)

According to (Rao & Desta, 2016) commercial banks perform very important functions to the growth of capital formation and investment in Ethiopia. They mobilized deposit from the public and extend loans and advances to the customers. They also contribute the development of the country by participating in the financing of public projects. They buy the bond issued by the government for the construction of the Great Renascence Dam. Furthermore, commercial banks in Ethiopia undertake many kinds of activities that can be considered as activities of corporate social responsibilities.

(Rao & Desta, 2016) further explained that the proper functioning of commercial banks and their good performance is therefore, quite important for Ethiopia. Taking in to account their roles, NBE has issued directives. In this regard, NBE has issued directives in 2015, ‘Bank Corporate Governance Directive No. SBB/62/2015’. NBE has issued these directives due to the following reasons (NBE D. N., 2015):

- Corporate governance plays a vital role in maintaining the safety and soundness of financial system in general and banking sector in particular.
- Corporate governance gives way to balanced risk taking and enhances business prudence, prosperity and corporate accountability with ultimate objectives of realizing long term stakeholder’s interest.
- The NBE should insure whether banks are soundly and prudently managed and directed.

(Rao & Desta, 2016) argued that regulation may not be enough to ensure good corporate governance in Banks. Hence, banks themselves put in to practice some corporate governance mechanisms to insure the shareholders and other shareholders interests. To this end, exploring the relation between corporate governance and financial performance is worthwhile.

There are few prior studies conducted in the area of bank corporate governance in Ethiopia. Kibrysfaw (2013) studied the relationship between corporate governance variables in respect of board characteristics, regulation, depositor’s impact and ownership structure and firm financial performance. A study conducted by Yenesew (2012), analyzed the relationship between board characteristics and financial performance.

The above studies overlooked some corporate governance variables like board risk management committee and frequency of board meeting. Furthermore, the contradictory conclusions that results from the three previous researches and to examine banks corporate governance practice after issuing of new NBE corporate directive in 2015(directive no. SBB/62/2015) call for a detailed investigation to be conducted in the area. In general, the lack of sufficient research on the impact corporate governance mechanism on bank performance in the context of Ethiopia and the existence of knowledge gap in the area are the root causes for undertaking this study.

According to (Basel Committee, 2015) risk governance is an important element of corporate governance. Risk governance applies the principles of sound corporate governance to the identification, measurement, monitoring and controlling of risk –taking activities are in line with the banks' strategic objectives and risk appetite. Accordingly, by realizing the importance of risk management of banks, NBE stated in its directive no. SBB/62/2015 the board shall establish risk and compliance subcommittee with the objective of to oversee senior managers' activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning (NBE D. N., 2015)

There are empirical evidence about the relationship of corporate governance information disclosure and financial performance. A firm profitability is positively associated with its corporate governance disclosure level (Feldioreanu & Seria, 2015).

For these reasons the current study believes the corporate governance mechanism of banks should be extend to include these variables. To the best of the researcher knowledge, there is gap exists since none of them covers effect of availability of risk and committee and frequency of board meeting corporate governance variables and financial performance and specially, in the commercial banking sector in Ethiopia.

1.3. Research Questions

This study addressed issues relating to the following pertinent questions emerging within the domain of the study problem

1. Is there relationship between board size and the financial performance of banks in Ethiopia
2. Is there relationship between frequency of board meeting and the financial performance of banks in Ethiopia
3. Is there relationship between higher proportion of women in the board (board gender diversity) and financial performance of banks in Ethiopia
4. Is there relationship between availability of separate board risk management committee and financial performance of banks in Ethiopia

5. Is there a relationship between the level of corporate governance disclosure and the financial performance of banks in Ethiopia

1.4. Research objectives

Generally, this study seeks to examine the relationship between internal governance structures and firm financial performance in the Ethiopian Banking Industry. However, it is set to achieve the following specific objectives:

1) Investigate the relationship between board size and the financial performance of banks in Ethiopia
2) Examine the association between frequency of board meeting and the financial performance of banks in Ethiopia
3) Investigate the relationship between higher proportion of women in the board (board gender diversity) and financial performance of banks in Ethiopia
4) Examine the relationship between availability of separate board risk committee and financial performance of banks in Ethiopia
5) Empirically determine if there is any relationship between the level of corporate governance disclosure and the financial performance of banks in Ethiopia

1.5. Significance of the study

The findings of this study would contribute to improving firm performance by implementing good corporate governance practice in Ethiopian Banking Industry and in what ways the banks can implement good corporate governance that aligns with bank performance. The government will use the study so as to come up with polices and ways of promoting corporate governance of banking industry of the country.

The empirical results would also provide general indicators of corporate governance useful for both regulator and business people in making polices and decisions. This study can be generally useful for researchers and academic community who are investigating the implication of corporate governance mechanisms in improving firm performance in banking sector.

1.6. Scope of the study

This study is delimited to exploring the impact of internal corporate governance mechanism on firm financial performance by taking evidence from commercial banks in Ethiopia for the period of five years, from 2012-2016 that are registered by NBE and that are operated at least for five years.

As mentioned above, the study focuses only on banking industry in Ethiopia because corporate governance problems and transparency issues are important in banking sector due to the crucial role in providing loans and advances to non-financial firms, in transmitting the effects of monetary policy and in providing stability to the economy as a whole.

The study therefore covers five explanatory variables (board size, frequency of board meeting, board gender diversity, availability of separate risk committee and corporate governance disclosure) and controlling variable were delimited to bank leverage and bank size. The dependent variable was delimited to return on asset

1.7. Limitation of the study

While the findings of any research are important, they invariably suffer from several limitations. Firstly, this study was restricted on some of internal corporate governance mechanism (board size, frequency of board meeting, board gender diversity, availability of separate risk committee and corporate governance disclosure) to determine bank performance.

Secondly, this study was limited to only one financial performance indicators (ROA) and the study does not include market performance indicator like Tobin's Q due to absence of stock market in the country.

1.8. Organization of the paper

The thesis is structured into five chapters. The first chapter comprises of background of the study, statement of the problem, research questions and objectives, significance of the study, scope and limitation of the study. Chapter two reviews theoretical and empirical studies in relation to internal corporate governance and firm performance. The third chapter provide description about the methodology and variables used in the study. Chapter four presents the results and discussion of the study. The results of descriptive analysis, correlation analysis and regression analysis were also presented in this chapter. The final chapter provides a brief summary of the study. In particular, it provides an overview of the conclusions drawn regarding the relationship between corporate governance and firm performance and finally provide possible recommendation.

CHAPTER TWO

2. Review of Related Literature

2.1. Introduction

This chapter review about corporate governance, theoretical framework related to corporate governance. It also analysis the literature related the effect of corporate governance on firm performance. Empirical studies and hypothesis development also review on this chapter.

2.2. What is corporate governance

Corporate governance is an old age concept which provides for a set of transparent relationships between an institutions management, its board, shareholders and other stakeholders (Kotnal, 2016). Corporate governance is a system by which companies are directed and controlled in the interests of shareholders and other stakeholders (Kaplan, 2015) . Corporate governance is therefore, about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster good corporate governance (Ranti & Samuel, 2012). According to (Andrei & Robert, 1997) corporate governance deals with the way in which suppliers of finance to corporation assure themselves of getting a return of their investment. According to (Holly & Marsha, 1999) this assurances are at the heart of what effective corporate governance is all about and further explained that providers of corporate finance whether they are individuals, or pension funds, mutual funds, banks, or other financial institutions, or even governments require assurances that their investments will be protected and will generate returns. This idea is supported by (Basel Committee, 2015) as it suggests that the primary objective of corporate governance should be safeguarding stakeholders' interest in conformity with public interest on a sustainable basis

The term 'corporate governance' is a susceptible of both narrow and broad definitions. Narrowly defined, it concerns the relationship between corporate managers, directors and shareholders. It can also encompass the relationship of corporation to stakeholders and society. More broadly defined still, 'corporate governance' can encompass the combination of laws, regulations, listed rules and voluntarily private sector practices that enable the corporation to attract capital, perform efficiently, generate profit, and meet both legal obligations and general societal expectations. (Holly & Marsha, 1999)

(Holly & Marsha, 1999) Argues that corporate governance is very important because as the markets become more open and global, and business becomes more complex, societies around the world are placing greater reliance on the private sector as the engine of economies growth. In both developed and developing countries, a growing proportion of economic activities takes place in firms organized as corporations.

Corporation mobilize and combine capital, raw material, labor, management expertise and intellectual property from a variety of sources to produce goods and services that are useful to member of society. Therefore, effective corporate governance promotes the efficient use of resources both within the firm and the larger economy. For related reason, effective corporate governance assists firms (and economy) in attracting lower-cost investment capital by improving both domestic and international investor confidence that assets will be used as agreed. Finally, to be successful in long term, corporations must comply with laws, regulations and expectations of the society in which they operate.

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

According to (Kotnal, 2016) If a corporate fallouts can be restricted to the stakeholders, but if a bank fails, the impact can spread rapidly through other banks with potentially serious consequences for the entire financial system and the macro economy. Therefore, corporate governance of banks are different from other corporations.

Organization for Economic Co-operation and Development (OECD, G20/OECD Principles of Corporate Governance, 2015) define corporate governance as:

‘Corporate governance involves a set of relationship between a company’s management, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined’

Also (Basel Committee, 2015) recommends corporate governance determines the allocation of authority and responsibilities by which the business and affairs of a bank are carried out by its board and senior management, including how they:

- ✓ set the bank’s strategy and objectives;
- ✓ select and oversee personnel;
- ✓ operate the bank’s business on a day-to-day basis;
- ✓ protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognized stakeholders;
- ✓ align corporate culture, corporate activities and behavior with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations; and
- ✓ establish control functions

2.3. Corporate Governance in Ethiopia

The emergence of corporate governance as an area of study is a recent phenomenon and the clear scope of corporate governance is not settled. Despite similarities in the objectives it seeks to achieve, corporate governance is structured in differently in different jurisdictions. There is no ready-made system of corporate governance that countries can easily implement (Sefara, 2015)

At present, Ethiopia has launched an ambitious Growth & Transformation Plan (GTP) to double its current GDP by 2015 E.C while these figures are promising indicators of the country’s economic progress, private & public investment is crucial in the country’s economic development objectives. Economic development, which is a key prerequisite for reducing poverty and creating wealth, presupposes the fundamental requirements of effective regulatory framework and good corporate governance (Tura, 2012)

According to (Sefara, 2015) Ethiopia has ‘transplanted’ most of its modern legal codes including the commercial code of 1960 from the then continental European legal codes. This code contain the general rules on corporate governance in Ethiopia. Other proclamations and directives were enacted to supplement the general rules of in commercial code. The commercial code recognizes board of directors, shareholders meeting and auditors as the three main organs of management of share companies. Shareholders are allowed to serve as members of the ‘one-tier’ board of directors in Ethiopia share companies. The shareholder meetings are called to pass resolutions on important matters of share companies, finally the auditors are appointed and entrusted with the task of examining the financial records of share companies. However, according to (Tura, 2012) such provisions are inadequate to address specific issues in corporate governance related to board of directors such as separation of roles of non-executive directors’ remuneration.

The general company law rules under the commercial code are often overruled or augmented by special rules of the same code or other separate proclamations and directives. Financial share companies are subject to special laws in addition to the general rules embodied under the commercial code. Hence, the banking business proclamation NO.592/2008 and Bank business proclamation No.764/2012 govern banks and Bank companies respectively (Sefara, 2015).

Commercial banks perform very important functions to the growth of capital formation and investment in Ethiopia. They mobilize deposits from the public and extend loans and advances to customers. They also contribute to the development of the country by participating in the financing of public projects. They buy the bond issued by the government for the construction of the Great Renaissance Dam. Furthermore, commercial banks in Ethiopia undertake many kinds of activities that can be considered as activities of corporate social responsibility (Rao & Desta, 2016).

The proper functioning of commercial banks and their good performance is therefore, quite important for Ethiopia. Taking in to account their roles, national bank of Ethiopia regulate them by issuing directives. NBE issues a new directives called ‘Bank Corporate Governance Directives SBB/62/2015’ by understanding of corporate governance play a vital role in maintaining the safety and soundness of financial system in general and banking sector in particular. Moreover, corporate governance gives way to balanced risk taking and enhances business prudence, prosperity and corporate accountability with ultimate objectives of realizing long term shareholders value, as well as customers’ and other stakeholders interest (NBE D. N., 2015).

2.4. Theoretical Framework

Corporate governance is an emerging phenomenon and its development is based on different complex disciplines including but not limited to legal, cultural, ownership, and other structural differences. The corporate governance evolved with the development, growth and advancement of the economy as well as with the enhancement in the corporate structure and the complexities accompanied with it. However, subject lacks a theoretical framework, empirically and methodologically coherence that effectively mirrors the reality of corporate governance. The shared consensus among the corporate governance scholars and practitioners is that there is no single universally recognized theoretical base nor commonly acknowledged paradigm (Abdi et al, 2014)

Various theoretical perspectives are used in explaining the impact of corporate governance mechanisms on firm financial performance. The main theories are agency theory, stakeholder's theory, stewardship theory and resource allocation theory (Manini & Abdillahi, 2015). One of the most explanatory of corporate governance is agency theory which explains that board autonomy is critical in aligning interests of owners and managers. Divorce between ownership and control linked with differing objectives create agency problem (Kaplan, 2015). Agency theory is a narrow form of stakeholder's theory. The basis for stakeholders is that companies are so large and their impact on society so pervasive that they should discharge accountability to many more sectors of the society than solely their shareholders. According to (Abid, Khan, Rafiq, & Alia, 2014) in agency theory, maximizing the shareholders wealth is paramount, whereas, the stakeholder's theory focuses on wider stockholders group.

Another theory concerning corporate governance is stewardship theory. Stewardship theory is an alternate to agency theory in terms of managerial motivation. It argues that shareholders' interest are maximized by stockholders incumbency of the roles of board chair and CEO (Abid, Khan, Rafiq, & Alia, 2014)

According to (Abid, Khan, Rafiq, & Alia, 2014) resource dependency theory explains the external resources of the firm affect the behavior of the firm and takes a strategic view of corporate governance. Resource dependency theory investigate the association between directors interlink and different facets of organization performance or behavior.

2.3.1. Agency Theory

Agency theory can help to explain the actions of the various interests group in the corporate governance debate. Examination of theories behind corporate governance provides a foundation for understanding the issue in greater depth and a link between on historical perspective and its application in modern governance standards.

According to (Kaplan, 2015) historically, companies were owned and managed by the same people. For economies to grow it was necessarily to find a larger number of investors to provide finance to assist in corporation expansion. This leads to the concept of limited liability (shareholders are legally responsible for the debts of the company only to the sum of the nominal value of their shares), the development of stock markets to buy and sell shares and delegation of running the firm to the agent or manager.

According to (Ranti & Samuel, 2012) in modern corporations the shareholders (principal) are widely dispersed and they are not normally involved in the day to day operation and management of their companies rather they hire mangers (agent) to manage the company on behalf of them.

The delegation of an agent or manager to run the firm leads separation of goals between wealth maximization of shareholders and the personal objectives of mangers. This separation is a key assumption of agency theory.

The essence of the agency problem is the separation of management and finance. An entrepreneur, or manager; raises funds from investors either to put them to productive use to cash out his holdings in the firm. The financiers need the manager's specialized human capital to generate returns on their fund. (Andrei & Robert, 1997).However, the financiers cannot be sure that their funds will maximize their shares. According to (Andrei & Robert, 1997) the agency problem in this context refers to the difficulties financiers have in assuring that their funds are not expropriated or wasted on unattractive project.

According to (Ranti & Samuel, 2012) and (Kaplan, 2015) the separation of ownership and control in business leads to a potential conflict of interests between directors and shareholders which gives rise to the 'Principal-Agent Problem' which is the key area of corporate governance focus.

The possible short-term perspectives of managers rather than protecting long- term shareholders wealth, which means the agent (manager) and the principal (owner) have different objectives. Agent objectives (such as a desire for high salary, large bonus and status for a director) will differ the principal's objectives (wealth maximization of shareholders) (Ranti & Samuel, 2012) therefore, to reduce agency problem there must be a better monitoring and controlling mechanisms which helps to ensure that managers pursue the interests of shareholders rather than only their own interests.

(Abid, Khan, Rafiq, & Alia, 2014) supports that this framework has disadvantage as agent may not work for paramount interest of principal. Agent misusing his/her power for monitory and non-monitory benefits. Agent doesn't take precautionary risk measures or agent and principal may have different attitude towards risk. Therefore, the principal need to find ways of ensuring that their agent act in their (the principal) interest.

(Ranti & Samuel, 2012) Further argues that to solve this problem or to align the conflicting interest of managers and owners the company incurred controlling costs including incentives given to managers. Which reduces agency loss and maximizing shareholders interest and aligning the interest of principal and agent.

Agency costs are incurred by principals in monitoring agency behavior because of lack of trust in the good faith of agents. The most important agency costs are the external audit fee, attending meetings and reading both annual reports and analyst's report (Kaplan, 2015). Agency problem arises because contracts are not as costless written and enforced. Agency costs include the costs of structuring, monitoring and bonding a set of contracts among agents within conflicting interests. The value of output lost because the costs of full enforcement of contracts exceed the benefit also the cost of agency (Fama & Jensen, 1983).

According to (Fama & Jensen, 1983) managers' superior access to inside information and the relatively powerless position of the numerous and dispersed shareholders, mean that managers are likely to have the upper hand. The same author further argues that stock market (since stock prices are visible signals that summarize internal decisions for current and future net cash flows. This external monitoring exerts pressure to orient a corporation decision process towards the interest of principal), market for takeover (residual claims are freely unalienable can circumvent existing manager's and the current board to gain control of the decision process, either by direct offer to purchase stock ‘a tender offer’ or by an appeal for stockholders votes for directors ‘a proxy fight’) and expert boards are some of mechanism to control the agency problem. Internal control in the corporation is delegated by shareholders to the board of directors. Shareholders generally retain approval rights (by vote) on such matters as a board membership, auditor choice, mergers and new stock issues. The board then delegate most decision management functions to internal agents but it retains ultimate control over internal agents.

Therefore, shareholders monitor and control managers through their representative such as board of directors. Boards of directors are considered as an important device to protect shareholders from being exploited by managers and help to effectively control managers when they try to maximize their self-interest at the expense of the company’s profitability (Manini & Abdillahi, 2015).

The agency theory provides a basis for the governance of firms through various internal and external mechanism. Corporate governance mechanism are designed to align the interest of owners and managers, constrained the opportunistic behavior of managers and protect shareholders interests, generally to solve agency problem. See, (Manini & Abdillahi, 2015), (Abid, Khan, Rafiq, & Alia, 2014), (Fama & Jensen, 1983), and (Basel Committee, 2015)

From agency view point, (Manini & Abdillahi, 2015) (as cited in Habbash, 2010) corporate governance improves corporate performance by resolving agency problems through monitoring management activities, controlling self-centered behaviors of management and inspecting the financial reporting process.

Therefore, corporate governance mechanisms such as board directors enables shareholders to closely monitor the activities of managers. Ineffective board may give confidence to managers to pursue their own interest but effective board can reduce deceptive behavior of managers by detecting fraudulent financial report and actively monitoring (Manini & Abdillahi, 2015).

Board structure is heavily relied on the concept of agency theory, focusing of controlling function of the board (Manini & Abdillahi, 2015), therefore, the corporate governance mechanisms considered in this study includes board size, frequency of board meeting, gender diversity, availability of separate risk committee and corporate governance disclosure.

2.3.2. Stakeholders' Theory

The basis for stakeholders theory is that companies are so large and their impact on the society so pervasive that they should discharge accountability to many more sectors of society than solely their shareholders (Kaplan, 2015).

According to (Hill & Jones, 1992) agency theory has been primarily concerns with the relationship between managers and shareholders. However, agency theory unable to explain the nature of the implicit and explicit contractual relationships that exist between a firm's stakeholder. In addition to managers and shareholders, stakeholders include employees, customers, suppliers, creditors, communities and the general public. Therefore, agency theory is a narrow form of stakeholder's theory.

(Freeman R. E., 2001) Define stakeholders generally as group and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate action. (Freeman & Reed, 1983) Distinguished two sense of stakeholders. The narrow definition 'includes those groups who are vital to the survival and success of the corporations' and the wider-definition 'includes any group or individual who can affect or is affected by the corporation'

According to (Manini & Abdillahi, 2015) (as cited in Kyereboah-Coleman-2007) managers receive capital from shareholders they depend upon employees to accomplish the objective of the company. External shareholder such as customers, suppliers, and the community are equally important and also constrained by formal and informal rules that business must respect.

(Freeman R. E., 2001) Also argues that owners have financial stake in the corporation in the form of stock, bonds and so on and they expect some kind of financial return from them. Employees have their jobs and usually their livelihood at sake, they often have specialized skills. In return for their labor, they expect security, wages, benefits and meaningful work. Suppliers are vital to the success of the firm, for raw material will determine the final product's quality and price. Therefore, the firm should treat a supplier as a valued member. Customer provide a lifeblood of the firm in the form of revenue as customer exchange resources for the products of the firm. In return receive the benefits of product. The local community grants the firm the right to build facilities. In turn for the provision of local services, the firm is expected to be a good citizen, as is any person.

Therefore, management, especially top management, must look after the health of the corporation, and this involves balancing the multiple claims of conflicting stakeholders (Freeman R. E., 2001).

Stakeholder's theory is subject to critics as it doesn't show how to align the stakeholders conflicting interests since the difficulties arise how to administer different stakeholders with various needs and demand (Manini & Abdillahi, 2015). According to (Freeman R. E., 2001) the stakeholder theory doesn't give primacy to one stakeholder group over another, though there will surely be times when one group will benefit at the expense of others. However, management must keep the relationship among stakeholders in balance. When these relationship become imbalanced, the survival of the firm is in jeopardy.

Stakeholder's theory is prominent corporate governance theory because of the accountability of the firm to a wider audience than simply its shareholders. According to (Abid, Khan, Rafiq, & Alia, 2014) shareholders and stakeholders encourage distinct corporate governance structures and monitoring mechanism. As Anglo-American model board consist of executives and non-executives directors, whereas, in German model, stakeholders have constitutional right allow representatives to actively participate in the board meeting.

Thus stakeholder's analysis has been developed at strategic level, it takes a number of groups in to account and analysis their strategic impact on the corporation (Freeman & Reed, 1983).

(Freeman & Reed, 1983) Extend their argument that the propositions of stakeholder analysis advocate a thorough understanding of firms' stakeholders and recognize that there are times when stakeholders must participate in the decision –making process. The board of directors must be aware of the impact of their decisions on key stakeholder groups. Thus the board should be map carefully the power and stake of each group.

2.3.3. Stewardship Theory

Stewardship theory is developed by Donaldson and Davis as a new perspective to understand the existing relationship between ownership and management of the company. This theory arises as an important counterweight to agency theory (Pastoriza & Arino, 2008).

Unlike agency theory which argues that shareholders interest require protection by separation of incumbency of role of board chair and CEO, stewardship theory argues shareholders' interests are maximized by shared incumbency of these roles (Doonaldson & Davis, 1991)

According to (Doonaldson & Davis, 1991) the 'model of man' underling agency and organizational economics managers rationally maximizing their own personal economic gain, which in turn create conflict of interest between managers and owners.

The 'man of model' of stewardship theory on the other hand, which originate in organizational psychology and organizational sociology, holds that managers are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work (Doonaldson & Davis, 1991). Thus the fundamentals of stewardship theory are based on social psychology which focuses the behavior of Executives (Wan Yussoff & Alhaji, 2012)

Therefore, stewardship theory is an alternative to agency theory in view of managerial motivation as the theory argues executive manager are far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of corporate assets (Doonaldson & Davis, 1991). Thus there is no conflict of interest between managers and owners and that the goal of governance is, precisely, to find the mechanism and structure that facilitate the most effective (Pastoriza & Arino, 2008) and also (Doonaldson & Davis, 1991) argues stewardship theory focuses not on motivation of CEO but rather facilitate empowering structure and holds that fusion of the incumbency of roles of chair and CEO will enhance effectiveness and produce, as a result superior returns to shareholders than separate of the role of chair and CEO.

According to (Abid, Khan, Rafiq, & Alia, 2014) in stewardship theory the agent is self-actualization focuses on higher order needs (achievement and self-actualization). They place the firm ahead of their personal interest. The stewards are involvement-oriented and trusty. Even though, human must have income to survive, stewards do not primarily target 'survival'. They don't treat themselves as outer employees instead they treated themselves important member of the firm.

Thus, stewardship theory defines situation in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals.

According to (David & Donaldson, 1997) in stewardship theory, the model of man is based on a steward whose behavior is ordered such that pro-organizational, collectivist behaviors have higher utility than individualistic, self-serving behavior. The steward perceives greater utility in cooperative behavior by not substitute or trade serve-serving behavior, thus this behavior can be considered rational.

According to stewardship theory, the behavior of the steward is collective, because the stewards wants to achieve the objectives of the organization. This behavior in turn will benefit the principal (David & Donaldson, 1997).

Stewardship theorists assume a strong relationship between the success of the organization and the principal satisfaction. A steward's utility functions will maximized by protest and maximize shareholders wealth through firm performance (David & Donaldson, 1997).

Stewardship theory holds that there is a trade-off between personal needs and organizational objectives and stewards believe that by working towards organizational, collective ends, their personal needs are met (David & Donaldson, 1997).

According to (David & Donaldson, 1997) the performance of steward is affected by whether the structural situation in which manager is located facilitates effective action. Thus a steward's autonomy should be deliberately extended to maximize the benefits of steward, because the steward can be trusted, in this case agency costs will minimized. Because steward is motivated to behave in ways that are consistent with organizational objectives.

A steward who improves performance successfully, satisfies most stakeholders group in an organization, when these groups have interests that are well served by increasing organizational wealth (Wan Yussoff & Alhaji, 2012)

The relevance of stewardship theory to corporate governance, manager needs to be given clear and unambiguous role. The organizational structure should give and support acceptable authority, worth and power to the management. This is why the stewards are referred to as the company man; i.e. man who will be committed and place the firm ahead of his or her self-interests (Abid, Khan, Rafiq, & Alia, 2014).

2.3.4. Resource Dependency Theory

The concept of the 'Resource Dependency Perspective' gained public awareness through the book by Jeffrey Pfeffer and Gerald Salancik 'The External Control of Organization: A Resource Dependency Perspective' and become widely accepted in the Anglo-American discussion (Nienhuser, 2008)

The acquisitions of external resources are vital for strategic management of any organization. Every corporation depends on resources. The resources emanate from the environment consists of other firms (Abid, Khan, Rafiq, & Alia, 2014).

According to (Pfeffer & Salancik, 1978) organizations engaged in exchanges and transactions with other organizations. The exchanges may involve monetary or physical resources, information or social legitimacy. Because organizations are not self-sufficient, the environment must be relied upon to provide support. Because of the resources are in the hands of other firms, firms are depends on each other and exchange resources (Abid, Khan, Rafiq, & Alia, 2014).

Interdependence of organizations is a consequence of the open-system nature of organizations, as the fact that organizations must transact with elements of the environment in order to obtain the resources necessary for survival (Pfeffer & Salancik, 1978) . Therefore, dependence can be defined as the product of the importance of a given input or output to the organization and the extent to which it is controlled by a relatively few organization.

According to (Abid, Khan, Rafiq, & Alia, 2014) resources are the basis of power for firms because the resources are valuables, costly to imitate, rare and no substitute. Therefore, resources and power are directly linked. Those firms have resources can be considered more powerful as compared to its competitions those don't have access to that.

A fundamental assumption of resource dependence theory is that dependence on 'critical' and important resources influences the actions can be explained dependency on the particular dependency situation (Nienhuser, 2008). For continuing to provide what the organization needs, the external groups may demand certain actions from the organization in return (Pfeffer & Salancik, 1978). Thus organizations could not survive if they were not response to the demands from their environments.

The concept of dependence suggests that organizations are partly directed by elements in their environment organizations formulate their own actions in response to the demands placed upon them by other organizations. Organizational behavior is constrained and shaped by the demands and pressures of organization and groups in its environment (Pfeffer & Salancik, 1978).

The scarcity of resources leads to uncertainty for organization. Firms always seek to find ways to exploit the resources for the safeguard of its own long term survival (Abid, Khan, Rafiq, & Alia, 2014).

(Nienhuser, 2008) Argues that in order to understand organizational behavior one must have a clear picture about which resources are the critical ones. A particular resource may only constitute a very small part of a total resource needs or costs, but it is critical if the missing of that resource endangers the ability of organization to function. Resource dependence theory argues about the actors and their relation to the environment. It always about actors who control resources and about other actors who need these resources which result in varying relationship of dependency. It assumed that actors want to reduce their dependence i.e. increase their power upon others.

According to (Abid, Khan, Rafiq, & Alia, 2014) the basic proposition of resource dependency theory is the need for environmental linkages between the firm and outside resources. In this perspective, directions service to connect the firm with external factors by co-opting the resources needed to survive.

(Pfeffer & Salancik, 1978) Argues three factors are critical in determining the dependency of one organization on other. First, there is the importance of the resources, the extent to which the organization requires it for continued operation and survival. The second is the extent to which the interest group has discretion over the resource allocation and use. And the third, the extent to which there are few alternatives, or the extent of control over the resource by the interest group is an important factor determine the dependency of the organization.

Although resource dependence theory is less commonly used to study boards than agency, empirical evidence to date suggests that it is a more successful lens for understanding boards (Hilliman & Daiziel, 2003). And (Abid, Khan, Rafiq, & Alia, 2014) also supports this as resource dependence theory underscores the importance of board as a resource and envisages a role beyond their traditional control responsibility considered from the agency theory perspective.

Resource dependence theory supports the appointment of directors to multiple boards because of their opportunities to gather information and network in various ways (Abid, Khan, Rafiq, & Alia, 2014).

According to (Hilliman & Daiziel, 2003) resources board of directors serve two important functions for organizations are monitoring management on behalf of shareholders and providing resources. The resource dependence theorists contend that the provision of resources is a function of board capital. Therefore, this function refers directly to the ability of the board to bring resources to the firm.

Thus board of directors are an important mechanism for absorbing critical elements of environmental uncertainty in to the firm. They link the external resource with the firm to overwhelm uncertainty. Because managing effectively with uncertainty is crucial for the existence of the company (Abid, Khan, Rafiq, & Alia, 2014).

According to resource dependency rule, the directors bring resources such as information, skills, key constitutes (supplier, buyers, public policy decision makers, social groups) and legitimacy that will reduce uncertainty (Abid, Khan, Rafiq, & Alia, 2014)

(Hilliman & Daiziel, 2003) Argues that boards can manage environmental dependencies and should reflect environmental needs. They also suggested that four benefits directors can bring to the firm: advice and counsel, channels information flow, preferential access to resources and legitimacy.

According to (Nienhuser, 2008) manager's function is the decision making and legitimizing function. Manager's makes decisions on how environmental requirements (and also on internal actors) can be managed and at the same time legitimatizes decisions towards stakeholders. Furthermore, he suggests strategies to management for handling resources and exchange relationship with environment:

- ✓ Adapting in the sense of organizational compliance i.e. meet the demands of a particular social actor,
- ✓ Avoiding influence from the environment,
- ✓ Managing and avoiding dependence, i.e. creating alternative resources and

- ✓ Managing the conditions of social control, i.e. try to dominate controls or reduce their dominance.

Board of directors constitute a strategy to reduce uncertainty in the same way. According to (Nienhuser, 2008) size and composition of the board of directors are affected by resource dependency and also he argues that there is a relationship between resource dependency and organizational structure as the greater the resource dependency, the more the organization can differentiate itself according to this dependency.

2.5. Empirical Review on Corporate Governance and Firm Performance and Hypothesis Development

Corporate governance is recognized as one of the most important implication to build a marketplace confidence and to attract positive investors in the organization specifically and the economy generally. Promoting good corporate governance standards considered to be very important in attracting investment capital, reducing risk and developing firm's performance (Ahmed & Hamdan, 2015)

According to the study conducted by (Ahmed & Hamdan, 2015) in which the study sample contained 42 out of 48 Bahrain financial companies which are listed in Bahrain stock exchange during the period 2007-2011. The descriptive result shows that the sample firms fulfill corporate governance variables about 61.2 % and the empirical results indicated that performance measure such as ROA and ROE are statistically significantly related to Corporate Governance.

Another study supports the positive relation of corporate governance and firm performance is conducted by (Zagorchev & Gao, 2015) they are examine how corporate governance affects financial performance in the US between 2002-2009. The results indicated that better governance is negatively related to excessive risk taking and positively related to the performance of US financial institutions. They argue that sound overall and specific governance practices are associated with less total non-performing assets, less real-estate non-performing assets, and higher Tobin's Q.

According to the results of the study of Nigerian 9 banks for a period of 10 years (2001-2010) conducted by (Fatimoh, 2012) poor asset quality (defined as the ratio of non-performing loan to credit) and loan deposit ratios negatively affect financial performance and vice versa, thus the study supported the hypothesis that corporate governance positively affects performance of banks.

With regard to the relationship between corporate governance mechanism and firm's financial performance, is well taken by the researchers and render mixed results (Naushad & Malik, 2015). Therefore, as this study seeks to examine the impact of corporate governance mechanism such as board size, board gender diversity, and availability of separate risk committee, frequency of board meeting, corporate governance disclosure and capital structure, the important empirical studies are summarized below.

2.4.1. Board Size and Firm Performance

According to (Rao & Desta, 2016) the effectiveness of the board can be affected by board size. So far, there is no clear consensus on the board size, to this end, there are arguments both for smaller and larger boards to be effective in controlling managers.

There is an argument that larger boards of directors gather more human capital and this in turn boosts its effectiveness both in terms of monitoring and advising management. However, a critics is when a board gets to big it becomes difficult to co-ordinate, encourages free riding and poses problems. Therefore, small boards might reduce the possibility of free riding and increase the accountability of individual directors (Rao & Desta, 2016).

To this end, there are studies that support larger boards led to better performance such as (Al-Sahafi, Rodrigs, & Barness, 2015) , (Grove, Patelli, & Victoravich, 2011). The study conducted by (Al-Sahafi, Rodrigs, & Barness, 2015) evidence from Saudi Arabia argues that board size and board independence are statistically significant positive associated with ROA at 5% and 10% level of significance respectively. This implies that ROA increases as board becomes bigger and independent. Furthermore, ROE model indicated that board size has a strong positive relationship with ROE at 1% level of significance. This suggests that, an increase in the board size guarantees an increase in the performance of the banks. Accordingly, they recommends that the bank should have a large board (between 9 to 11 members) as it contributes to better financial performance.

According to (Grove, Patelli, & Victoravich, 2011) study conducted in US commercial banks founds that board size exhibits a concave or inverted U-shaped association with bank performance.

This implies an increase in board size is associated with financial performance but when the board gets too large, this increase will impair performance.

In contrary there are also a number of studies that document smaller boards bring better performance such as (Ranti & Samuel, 2012), (Naushad & Malik, 2015), (Manini & Abdillahi, 2015), (Khan, Malik, & Umbreen, 2017),and (Zabri, Ahimed, & Wah, 2016)

(Ranti & Samuel, 2012) Finds that there is a negative relationship between board size and bank financial performance in Nigeria. This implies that larger boards are less effective than smaller boards because, increase in board's size occurs with increase in agency problems. This leads decision-making power of the board to become slower with the involvements of more people. Thus they conclude that the large board size leads to the free rider problem where most of the board members play a passive role in monitoring the firm. Moreover, the board members tend to become involved in dysfunctional conflicts where the board is not cohesive (board members are not working optimally to achieve a single goal) deteriorating the value of the firm.

There are also studies that argues board size doesn't have an impact on the financial performance of banks such as (Rao & Desta, 2016) and (Abdul-Quadir & Kwanbo, 2012)

Therefore the previous empirical results are inconclusive on the relationship between board size and financial performance. Thus the hypothesis is stated as:

Ho_1: Board Size Has Negative Effect on the Financial Performance of Commercial Banks in Ethiopia

2.4.2. Frequency of Board Meeting and Firm Performance

Most literature on corporate governance concentrated much on board composition or size as a measure of involvement in monitoring management, while another dimension of board oversight such as board meetings is ignored (Akpan, 2015).

According to the requirement of the NBE's Bank Corporate Governance Directives No. SBB/62/2015 code on corporate governance, banks are encouraged to have regular board meetings for discharging duties and responsibilities. Accordingly the directive states that 'a board meeting shall be held at least once in a month on the date and at the venue fixed in accordance with the rules for manner of conducting the board meeting.' And also mention that the board members should be attend in person at least 75% the board meetings of the bank within a financial year. Accordingly board remuneration shall be paid to directors in proportion to his attendance of board meetings during the year (NBE D. N., 2015).

Board meeting refers to the gathering of directors on the board to discuss issues regarding the company. It measured as the number of meetings during a year by a company board of directors. Board meetings play a significant role to the success of a company as it serve as an important avenue for effective decision making of a company (Kakanda, Salim, & Chandren, 2016). They further argued that board of directors hold meetings on behalf of the company to discuss issues of the past, present and future that is related to the company and resolutions passes during board meetings.

According to (Akpan, 2015)for board to effectively perform its oversight function and monitor management performance, the board must hold a regular meeting.

Empirical findings on the effect of frequent board meetings and corporate performance show mixed results.

Study finding such as (Ntim & Osei, 2011) a sample of 169 listed corporations from 2002 to 2007 in South Africa, suggest a statistically significant and positive association between the frequency of corporate board meetings and corporate performance, which implying that South Africa boards that meet more frequently tend to generate higher financial performance. This result provide empirical support for agency theory, which suggests that corporate boards that meet more frequently have increased capacity to effectively advise, monitor and discipline management and thereby improving corporate financial performance.

On the other hand, studies such as (Johl, Kaur, & Cooper, 2015), (Taghizadeh & Saremi, 2013) and (Akpan, 2015) result shows that the board meetings are negatively significant relation with firm performance. A study conducted by (Johl, Kaur, & Cooper, 2015) for 700 public listed firms in Malaysia for the year 2009, they found that the average frequency of board meetings in a year is 5 times and ranges between 0 and 24 in a year. It appeals that the banking and financial sector tend to have much more regular board meetings due to the nature of the business. They also found that there is a negative and significant at 5% level association between frequency of board meeting and firm performance, which indicates that the more frequent the board meetings are held it has an inverse effect on firm performance, because too frequent meetings can lead to resources being channeled towards less productive activities.

(Taghizadeh & Saremi, 2013) Found that frequency of board meeting has negative and significant at 1% and 5% level of significant relationship with ROE and ROA respectively. Implies that high frequency of board meeting decreases amount of both ROE and ROA. The sample of this study consists of 150 public listed Malaysian Firms.

Another study gives similar result is conducted by (Akpan, 2015) a sample of 79 companies listed in Nigerian Stock Exchange from 2010-2012 finds board meetings have negative significant relationship with company performance. This means that the frequency of meetings reduced shareholders earnings as company incurred more financial expenses in terms of sitting allowance, travelling expenses, hotel accommodation and entertainment during meetings.

Drawing on the arguments from the above, there have been inconclusive findings on the frequency of board meetings with firm performance where this study seeks to address. Therefore, the following hypothesis is developed:

Ho_2: There Is No Relationship Between The Frequency Of Board Meetings And Financial Performance Of Commercial Banks In Ethiopia.

2.4.3. Board Gender Diversity and Firm Performance

According to (Rao & Desta, 2016) one of the board diversity qualities measurements is the sex premise. In other words, diversity captured by the percentage of women in each board in prior studies. There are theories backing the commitment by female executives on better usefulness for board on critical issues. Gender diversity is part of the broader concept of board diversity. Boards are concerned with having right composition to provide diverse perspectives (Manini & Abdillahi, 2015)

Gender diversity in to corporate positions has got consideration in the recent decade due to legislative changes, financial scandals and crises. As a matter of fact, the presence of women on board of director is limited, even if, the literature reveals a slow but steady rise in female presence on corporate boards throughout the world (Rao & Desta, 2016) and (Agyapong & Appiah, 2015)

According to (Manini & Abdillahi, 2015) (cited in Boyle and Janet, 2011) greater female representation on boards provides some additional skills and perspectives that may not be possible with all male boards. Board diversity promotes more effective monitoring and problem solving. The management may be less able to manipulate a more heterogeneous boards to achieve their personal interests.

(Manini & Abdillahi, 2015) Argued that gender diversity in the board is supported by agency theory, as the theory is mainly concerned about monitoring role of directors and emphasis the representation from diverse groups will provide a balanced board so that no individual or group of individual can dominate the decision making of the board. Further explained (cited in Erhardt et al. 2003) diversity of the board of directors and the subsequent conflict that is considered to commonly occur be one of several tools used to minimize potential agency issues.

(Ajanthan, Balaputhiran, & Nimalathashan, 2013) Argues that diversity increases board independence because people with a different gender, ethnicity or cultural background might ask questions that would not come from directors with more traditional backgrounds. In other words, a more diverse board might be a more activist board. However, a different perspective may not necessary result in more effective monitoring because diverse board members may be marginalized. Hence there will be a positive or negative relationship between board diversity and firm value.

The empirical results are mixed and inconclusive on the effect of board gender diversity and financial performance. For example (Taghizadeh & Saremi, 2013) found a positive and statistically significant (1% level of significant) association between board gender diversity and financial performance on Malaysian Listed Firms. Similarly (Shafique, Idress, & Yousaf, 2014) report a positive relationship between number of women on board and bank performance. Besides, (Campbell & Minguez-Vera, 2008) found a significant positive association between board gender diversity and firm financial performance.

On contrary, there are also empirical evidences showed significant negative relationship exist between board gender diversity and firm performance. For example (Ajanthan, Balaputhiran, & Nimalathashan, 2013) found that strong (5% level of significance) negative relationship with gender diversity and financial performance in state banks in Sirilanka. Similarly, (Kilie, 2015) reports that board gender diversity has statistically significant negative impact on financial performance on banks in Turkey. It implies that gender diversity in board room can be a disadvantage, especially in terms of group performance, different styles, attitudes and perspectives may increase conflict, reduce cohesion and hinder communication and coordination within the team. Besides, (Dang & Nguyen, 2014) found a positive statistically significant association with firm performance measured in ROA on listed companies in France. (Sherit & Anwar, 2015) Found gender diversity decreases bank performance.

There are studies showed no significance relationship between board gender diversity and financial performance. For example (Rao & Desta, 2016) reported that there is no statistically significant association between board gender diversity and bank financial performance measured in ROA and ROE. This implies that the higher proportion of women director in the board room do not have statistically significant impact on bank financial performance. The result of the study of 42 banks in Kenya as at December 31, 2014 (Manini & Abdillahi, 2015) revel that statistically insignificant relationship between board gender diversity and bank financial performance, therefore, this result doesn't support the view that gender diversity leads to superior bank's financial performance. (Agyapong & Appiah, 2015) And (Shafique, Idress, & Yousaf, 2014) Reported that the percentage of women on board have no spastically significant relationship with firms financial performance of listed firms in Ghana which was measured by ROA and Tobin's Q.

Therefore the previous empirical results are inconclusive on the relationship between board gender diversity and financial performance. Thus the hypothesis is stated as:

Ho$_3$: Board Gender Diversity Has No Effect on the Financial Performance of Commercial Banks in Ethiopia

2.4.4. Availability of Separate Risk Management Committee and Firm Performance

A major objective of bank management is to increase shareholders' return epitomizing bank performance. The objective often comes at the cost of increasing risk. Bank faces various risks such as interest risk, market risk, credit risk, off- balance risk, technology and operational risk, foreign exchange risk, currency risk, liquidity risk, and insolvency risk. The bank's motivation for risk management comes from those risks which can lead to bank underperformance. (Tandelilin, Kaaro, Mahadwartha, & Supriyatna, 2007)

According to (Tandelilin, Kaaro, Mahadwartha, & Supriyatna, 2007) Banks which better implement the risk management may have some advantages: (i) It is in line with obedience function toward the rule; (ii) It increases their reputation and opportunity to attract more wide customers in building their portfolio of fund resources; (iii) It increases their efficiency and profitability.

In the outcome of the 2007-2008 financial crisis, banks and other financial institutions were accused of engaging in excessive risk taking. The composition of the board of director should a reliable proxy of how well the board can process information provided by insiders and advise as well as monitor the banks' risk taking practices in the best interest of its shareholders (Minton, Taillard, & Williamson, 2012)

According to (OECD, Risk Management and Corporate Governance, 2014) while risk-taking is a fundamental driving force in business and entrepreneurship, the cost of risk management failures is still often underestimated, both externally and internally, including the cost in terms of management time needed to rectify the situation. Corporate governance should therefore ensure that risks are understood, managed, and when appropriate, communicated.

(Basel Committee, 2015) In its principle of Risk Management Function, Banks should have an effective independent risk management function, under the direction of a chief risk officer (CRO), with sufficient stature, independence, resources and access to the board. And also Risks should be identified, monitored and controlled on an ongoing bank-wide and individual entity basis. The sophistication of the bank's risk management and internal control infrastructure should keep pace with changes to the bank's risk profile, to the external risk landscape and in industry practice.

(Basel Committee, 2015) states that risk committee should be required for systemically important banks and is strongly recommended for other banks based on a bank's size, risk profile or complexity; should be distinct from the audit committee, but may have other related tasks, such as finance; should have a chair who is an independent director and not the chair of the board or of any other committee; should include a majority of members who are independent; should include members who have experience in risk management issues and practices; should discuss all risk strategies on both an aggregated basis and by type of risk and make recommendations to the board thereon, and on the risk appetite; is required to review the bank's risk policies at least annually;

and should oversee that management has in place processes to promote the bank's adherence to the approved risk policies.

With this regard, Ethiopian banks board should establish separate Risk and Compliance Committee with the objective of to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that risk management process is in place and functioning (NBE D. N., 2015).

Having a separate and distinct RMC will allow committee members to fully focus on various risk process and reports in order to provide a better quality internal monitoring rather than having a combined committee (Tazilah & Abdul Rahman, 2014).

According to (Nickmanesh, Zohoori, Mushram, & Akbari, 2013) having a committee that follows the process contains of five methods (risk enumeration, qualitative and quantitative analysis, applying the risk management strategy, and the assessment of risk management strategy) is one of the strengths of a company. Therefore investigating the effect of having a risk management committee may guide to better understanding of its role.

(Kallamu, 2015) Argues that finance companies have separate risk management committee composed of directors with the required skills to monitor risks facing companies and ensure safeguards put in place to mitigate the risks are adequate. Thus, poor monitoring of the risks of the various companies led to some of the management taking high risk that resulted into the companies incurring significant losses that affected their overall performance. The impacts of the high risks on performance result in removing members of the risk management committee in some of the companies.

Risk management has been the function of the audit committee but with the recent financial innovations in new financial products and the change of focus of traditional financial institutions, there is an increase need to manage risk of investing in such financial invention and the need to constantly monitor the market for such products (Kallamu, 2015).

Although risk management committee performances vital role in monitoring of risks especially in finance companies, few studies have been carried out on risk management committee. Such as (Kallamu, 2015) the result obtained indicated that independent RMC is significantly negatively related with ROA ($p<0.05$) the negative association could be explained by inadequate monitoring by independent directors due to their busy schedule or due to inadequate technical knowledge and experience needed to perform the monitoring role effectively, (Nickmanesh, Zohoori, Mushram, & Akbari, 2013) reported that existence of RMC has statistically significant effect on ROA, based on the result, RMC size has negative statistically significant impact on ROA, it means that Malaysian firms with bigger size of RMC have less success in improvement ROA. Separateness of risk management committee and audit committee was another issue investigated in the current Bursa Malaysia condition. Results showed that combination or separateness of mentioned committees have no statistically significant impact on ROA. (Tazilah & Abdul Rahman, 2014) Examine the association between board characteristics and (RMC) whether it is combined or separate with audit committee in the Malaysian Islamic financial institutions. It was found that the existence of RMC is statistically significant associated with proper governance at the board of directors' level and thus, an effective and adequate Board member with larger size tends to have greater oversight monitoring function towards the company's activities. It is easier to establish a separate (RMC) and with greater levels of resources offered by larger boards, there would be less pressure to establish a combined risk management and audit committee. (Beasley, Clune, & Hermanson, 2005) Reported based on data gathered from 123 US based organization, the stage of ERM implementation to be positively related to the presence of a chief risk officer, board independence, CEO and CFO apparent support for ERM. Another study conducted by (Yatim, 2010) examine the association between the establishment of RMC and board structure of Malaysian Listed Firms for financial year in 2003. The study finds a strong support for an association between the establishment of a RMC and strong board structure. According to (Ping & Muthuveloo, 2015) implementation of ERM was found to have statistically significant influence on firm performance. In addition, monitoring by BODs, firm size and firm complexity were found to be significantly influence the relationship between ERM implementation to firm performance.

(Battaglia & Gallo, 2015) Found RMC size is positive and statistically significant for both ROA and ROE. Another study conducted the importance separate risk management committee is (Brown, Steen, & Foreman, 2009) they illustrate that the complex risk and regulatory environment high technology firms face may necessitate the creation of a separate risk management committee to interface with and assist the board and audit committee. (Oluwagbemiga, Isaiah, & Esiemogie, 2016) Result reveals that risk management practices have a statistically significant impact on financial performance. This result leads to a recommendation that adequate risk management system should be put in place by the board of directors.

Since, some of the financial outcomes would be affected by uncertainty; therefore risk management commitment might have influence on financial performance. Thus the hypothesis is stated as:

Ho$_4$: Availability of Separate Board Risk Management Committee Has No Effect on the Financial Performance of Commercial Banks in Ethiopia

2.4.5. Level of Corporate Governance Disclosure and Firm Performance

According to (Akhtaruddin, Hossain, Hossain, & Yao, 2009) corporate disclosure helps investors come closer to the company's affairs and hence, reduces the gap between management and investors. The agency theory implies that firms increase disclosure to avoid potential pressures from regulatory authorities. Strong governance leading to improved disclosure is a key tool in capital market development. In particular it creates confidence among the shareholders/investors who then pay higher prices for the stock.

Several studies find that detailed information disclosure reduces capital cost and has a positive impact on firm performance (Srairi, 2015)

There are studies about corporate governance and corporate governance disclosure. Such as (Nuhtay, Said, & Salman, 2013) they developed the disclosure index and it will be checked against the information disclosed in the annual reports. The result reveal that better disclosure quality of the annual reports in banking sector can be achieved by having separate board leadership structure, independent directors, higher board size, lower ownership by the directors, institutional and block shareholders. (Beekes, Brown, & Zhang, 2016) Found that better governance firms make more frequent disclosure to the market. In the same vein, (Alhazaimeh, Palaniappan, & Almsafir, 2014) reported that board activity, foreign ownership, non- executive directors, and block holders ownership to be significant in influencing voluntary disclosure, and also argue that voluntary disclosure in the annual reports does potentially affect the market capitalization.

There are empirical evidence about the relationship of corporate governance information disclosure and financial performance. For instance, (Feldioreanu & Seria, 2015) reported that a firm profitability is positively associated with its corporate governance disclosure level. In the same vein, (Srairi, 2015) argue that banks with higher level of CGD report high operating performance measured by return on asset and return on equity. In the same vein, (Rouf, 2012) reported that there is a strong positive correlation between reported governance disclosure and firm performance. (Panehasara & Bharadia, 2013) Found a positive effect of corporate disclosure practices on financial performance indicators of the banks. The study conducted by (Abdo & Fisher, 2007) indicated that there is a positive relationship between the level of disclosure and corporate performance. Hence, the prior empirical evidence predicts that disclosing more information by companies leads to higher company performance.

On the contrary, (Rao & Desta, 2016) found that CGD of commercial banks had no statistically significant effect on their financial performance. Further argue that the direction of the relationship should not be ignored. It is positively associated with ROE & ROA. This implies that a higher CGD practice will have a positive influence on the financial performance of banks. (Tang, 2010) Reported that better performing banks are less likely to disclose information on their corporate governance practices. In addition, large and highly leveraged banks tend to disclose more; the former may wish to alleviate public criticism or government interference in their affairs, while the latter may wish to minimize their agency cost of debt.

Therefore the previous empirical results are inconclusive on the relationship between corporate governance disclosure and financial performance. Thus the hypothesis is developed as:

Ho_5: The Level of Corporate Governance Disclosure Has No Effect on the Financial Performance of Commercial Banks in Ethiopia

2.6. Summary and Research Gaps

Good corporate governance enhances the confidence of investors in the companies and positively contributes towards huge investment premium, get access to cheaper debt, and outperform their objectives. Good corporate governance requires component board of directors' competent board of directors as a supervisory body for the executive management of the company (Tura, 2012)

The empirical studies on the topic which examine the relationship between corporate governance mechanism and firm financial performance are conducted in European and some emerging Asian market such as Malaysia, Jordan, China, India and etc. In Africa such topic has got higher coverage in Nigeria, Ghana, and Kenya. Even if, the topic has highly researched in both developed and emerging markets, the empirical study result indicated that there are different results, which implies previous empirical results are inconclusive on the relationship between corporate governance mechanism and financial performance.

There are few prior studies conducted in the area of bank corporate governance in Ethiopia. (Kibrysfaw, 2013) Studied the relationship between corporate governance variables in respect of board characteristics (board size, composition of board, audit committee and board ownership), regulation (capital adequacy ratio, legal reserve and liquidity), depositor’s impact and ownership structure and firm financial performance measured by ROA. The study period covered nine Ethiopian commercial banks from 2005 to 2012. The study used qualitative method research approach. Findings of the study show that proportion of non-executive from board characteristics variable, CAR and reserve requirement from regulation proxies had negative and significant impact on the performance of Ethiopian commercial banks. On the other hand concentrated ownership, deposit ratio and availability of audit committee had a positive and statistically significant impact on banks performance. However, the impact of the remaining variables like board size, board ownership, and liquidity on bank performance is not statistically significant.

A study conducted by (Yenesew, 2012), analyzed the relationship between board characteristics and financial performance of eight commercial banks under the title ‘The Impact of Corporate Governance Mechanisms on Firms Financial Performance: Evidence from Commercial Banks in Ethiopia. The study period covered from 2007 to 2011. The study used three financial performance indicators; ROA, ROE and NIM (Net Interest Margin). The study variables are board size, board gender diversity, board members educational qualification, board members business management & industry specific experience and audit committee size. The regression result show that large board size and audit committee had negatively influence financial performance. Whereas, board members educational qualification positively associated with financial performance. While industry specific experience of directors positively related with ROA but it is negatively affect

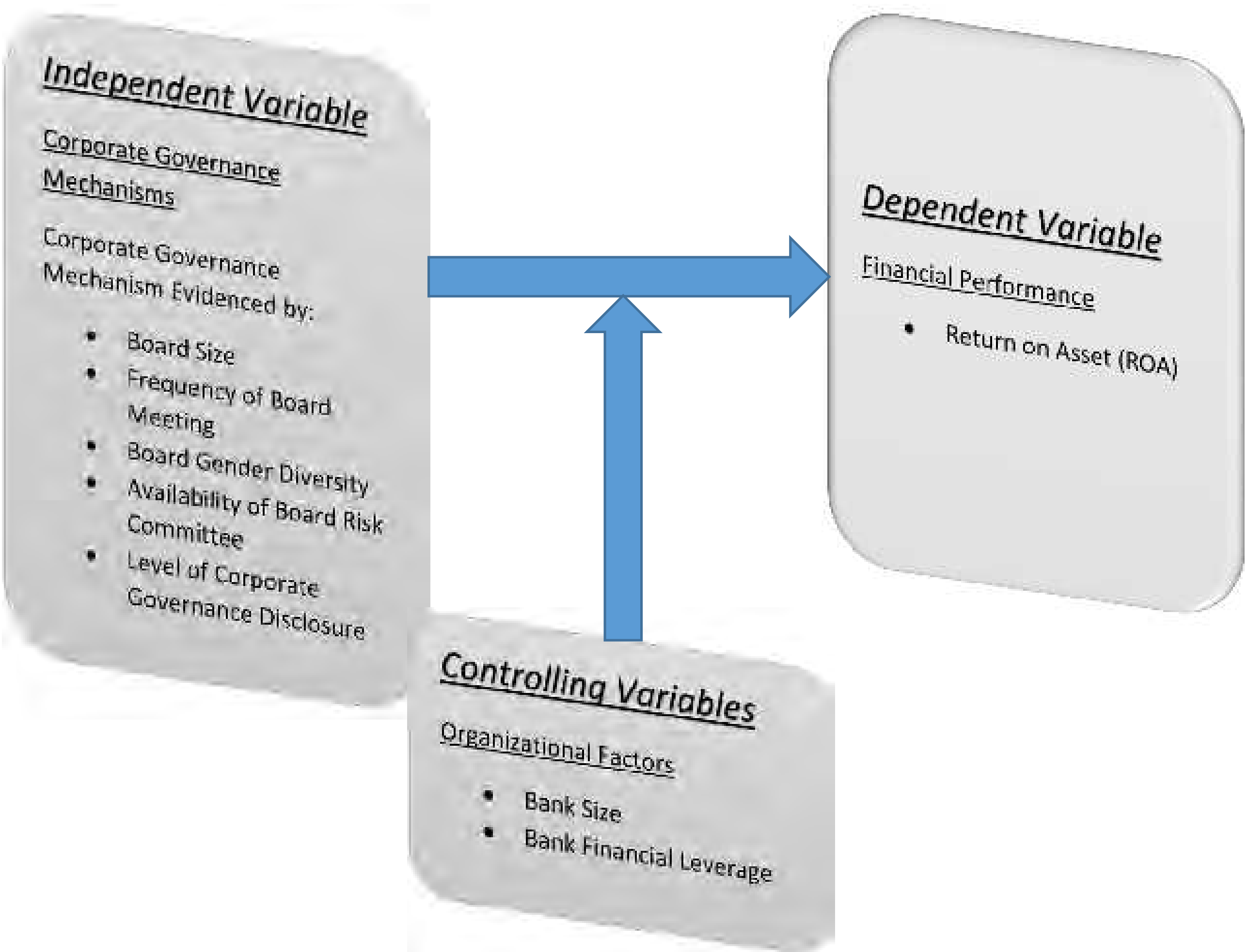
NIM. However, the percentage of female director and board member business management experience does not have a statistically significant effect on performance.

Another study conducted in the case of Ethiopian banks by (Rao & Desta, 2016) Corporate Governance and Financial Performance: A study with reference to Commercial Banks in Ethiopia. The study includes fourteen banks for five years study period. The annual reports of sample commercial were the sources of data. The proxies used for financial performance are return on equity and return on asset. Content analysis was applied to determine the level of disclosure using un-weighted checklist. Accordingly, the level of disclosure practice is measured by the ratio of disclosure score of a commercial bank to its total obtainable score. In addition, correlation and regression analyses were made to determine the relation between corporate governance and financial performance. The results indicate that disclosure practice, board size, board gender diversity and ownership type have no statistically significant impact on the financial performance of Ethiopian commercial banks. However, asset size and capital structure have significant effect on both on the return on equity and return on asset.

The above studies overlooked some corporate governance variables like board risk management committee and frequency of board meeting. Furthermore, the contradictory conclusions that results from the three previous researches call for a detailed investigation to be conducted in the area. In general, the lack of sufficient research on the impact corporate governance mechanism on bank performance in the context of Ethiopia and the existence of knowledge gap in the area are the root causes for undertaking this study.

For these reasons the current study believes the corporate governance mechanism of banks should be extend to include these variables. To the best of the researcher knowledge, there is a gap exists since none of them covers effect of availability of risk and committee and frequency of board meeting corporate governance variables and financial performance and specially, in the commercial banking sector in Ethiopia.

Figure 2-1- Conceptual Framework of the Study



Source: Adapted by (Manini & Abdillahi, 2015) *with researcher's slightly change*

CHAPTER THREE

3 Research Method

3.1. Introduction

This chapter discusses the method and procedure employed in carrying out the research. It also discuss the research design, study population and the data gathering method. The methods employed for data analysis and measurement which include descriptive statistics, Pearson correlation analysis and regression will also discuss.

3.2. Research Design

The primary aim of this research is to examine the impact of corporate governance mechanism on financial performance of commercial banks in Ethiopia. To meet this objective explanatory type of research design with quantitative approach were employed. The variables are considered quantitative because they provide information regarding the amount of something (Marczyk, Dematteo, & Festinger, 2005). Quantitative research is a means for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that measured data can be analyzed using statistical procedures (Creswell, 2009). The study employed panel data set which consists of a time series for each cross-sectional banks in a data set. According to (Wooldridge, 2009) the key feature of panel data that distinguished them from a pooled cross-section is that the same cross-sectional units(individuals, households, firms, in our case banks) are followed over a given time period. (Wooldridge, 2009) Argues panel cross-section data has the following advantages:

- Having multiple observations on the same units allows us to control for certain unobserved characteristic firms. In other words, it facilitate casual inferences in situations where inferring causality would be very difficult if only a single cross-section were available.
- They often allow us to study the importance of lags in behavior or the result of decision making.

Pearson correlation analysis was employ to measure the degree of the correlation between variables under consideration. The corporate governance disclosure level is arrive at by using the content analysis method to compute the disclosure index for all selected banks.

3.3. Study Population

The financial system of Ethiopia includes National Bank of Ethiopia as the country's central bank. The total population of the study consists of 19 banks operating in Ethiopia, three of which are state owned and the remaining sixteen are private banks (NBE, 2016). The time frame considered for this study is 2012 to 2016 (five years).

3.4. Sample Size

The sampling method used is purposive sampling. Accordingly, three criteria are applied to select the samples from the population. First, the bank included must undertake commercial banking activities and led by board of directors. Based on this criterion one state owned bank was excluded from this study. This bank is the development bank of Ethiopia. It is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the government by mobilizing fund from domestic and foreign sources while ensuring its sustainability (Rao & Desta, 2016). Secondly, a commercial bank should at least operate for five years. The third one is the availability of data, based on this criteria, one bank is excluded, since construction and business bank and commercial bank of Ethiopia were merged, there is no separate annual report for construction and business bank under the study period, the study were exclude this bank. Accordingly, 15 commercial banks met these criteria and they are considered for the study.

3.5. Data Gathering Method

3.5.1. Types and Source of Data

To study the relationship between corporate governance and financial performance of commercial banks in Ethiopia primary and secondary data were used. Data were obtained from selected commercial banks and National Bank of Ethiopia. The data were gathered from annual reports over the period of five years (2012-2016). The data on the board size, board gender diversity, availability of risk management committee and frequency of board meeting in commercial banks are obtained through administration simple questioners and the target group for the questioner were board secretaries. Moreover, disclosure practice level is determined by a check list against which information disclosure of commercial banks through annual reports is scored.

3.5.2. Research Instruments

In determining the level of corporate governance disclosure among commercial banks in Ethiopia, the study was used the content analysis technique as a means of eliciting data from the audited annual reports of the selected banks. This was done by using the check list adapted from (Ranti U. O., 2011) which is guided by UNCTAD *ISAR* benchmark of corporate governance disclosure items, the NBE code and OECD code of corporate governance. This is divided in to four broad categories: Financial disclosure, non-financial disclosure, annual general meetings, and timing and means of disclosure. Under all these broad subcategories, a total of 38 issues were considered (Ranti U. O., 2011).

3.5.3. Content Analysis

Content analysis is used to assess the level of compliance with the code on corporate governance in prior studies. Content analysis is a way of categorizing various items of a document into a number of categories. It is an appropriate method to use where a large amount of qualitative data has to be analyzed (Ranti U. O., 2011). The use of content analysis has been supported by a number of authors for similar type of study such as (Rao & Desta, 2016), (Akhtaruddin, Hossain, Hossain, & Yao, 2009), (Feldioreanu & Seria, 2015), (Srairi, 2015) and (Nuhtay, Said, & Salman, 2013).

This study therefore adopted the 'Yes' and 'No' approach identified by various studies on corporate governance as a more reliable method in analyzing corporate annual reports for governance disclosure because it doesn't add the element of subjectivity (Ranti U. O., 2011)

A comprehensive list of disclosure items adapted from (Ranti U. O., 2011) which is guided by UNCTAD *ISAR* benchmark of corporate governance disclosure items, the NBE code and OECD code of corporate governance. This is divided in to four broad categories: Financial disclosure, non-financial disclosure, annual general meetings, and timing and means of disclosure. Under all these broad subcategories, a total of 38 issues were considered (Ranti U. O., 2011). A similar approach was used by (Rao & Desta, 2016). The list includes both financial and non-financial items that are relevant to investors and other stakeholders. Accordingly 38 items will be considered (see Annex-II)

An un-weighted approach is followed to develop the voluntary corporate disclosure index. This approach is most appropriate when no importance is given to any specific user groups (Rao & Desta, 2016). After establishing the disclosure list, a scoring sheet will develop to assess the extent of voluntary corporate disclosure by banks. In doing so, if a bank disclosed information on the item of included in the list, it received a score of 1, and 0 if it is not disclosed. Such approach is supported by most prior studies aimed to develop such an index of disclosure, unlike weighted scores, which were rarely used before (Rao & Desta, 2016) as cited in (Barako et al., 2006). The method of computing the voluntary corporate disclosure index can be expressed as follows:

$$\boldsymbol{DI} = \frac{\text{Score of Commercial Bank}}{\text{Maximum Possible Obtainable Score}} \times 100$$

3.6. Variability of Study

A quantitative research approach was employed to analyze the relationship between corporate governance mechanisms and the financial performance of commercial banks in Ethiopia. The details how the variables are measured and used in the study are described below. The dependent, independent and control variables are considered for the study.

Dependent Variables: The measures used to capture financial performance of commercial bank are accounting-based measures. These measure is return on asset. Such accounting measures were frequently used in previous studies. The choice of these measures is based on the existing literature. For instance, accounting measures of were used by (Rao & Desta, 2016), (Naushad & Malik, 2015), (Manini & Abdillahi, 2015), (Ajanthan, Balaputhiran, & Nimalathashan, 2013), (Zabri, Ahimed, & Wah, 2016), (Al-Sahafi, Rodrigs, & Barness, 2015), (Fatimoh, 2012) and (Chiang & Lin, 2011).

Returns on assets (ROA) show the profitability of the company's assets in generating profits. In other words, it indicates the effectiveness of the firm's assets in increasing shareholders economic interests. It also shows the efficiency of management in using its asset to generate earnings (Rao & Desta, 2016). ROA is calculated as follows.

$$ROA = \frac{Profit\ After\ Tax}{Total\ Asset}$$

Independent Variables: The following are the independent variables of the study and the selection of each of the variables is backed by empirical evidence.

Board Size – (BZ): The total number of directors in the board sampled commercial banks in Ethiopia

Frequency of Board Meeting (FBM): The total number of board meeting conducted per year of sampled commercial banks in Ethiopia

Board Gender Diversity (BGD): The ratio of the number of female directors to board size of sampled commercial banks in Ethiopia

Separate Risk Management Committee (SRMC): This is a dummy variable taking 1 if the bank has separate risk management committee 0 otherwise of sampled commercial banks in Ethiopia

Corporate Governance Disclosure Index (DI): The ratio of disclosure scored a bank to its maximum obtainable score of sampled commercial banks in Ethiopia

Control Variables: The following are the control variables of the study and the selection of each of the variables is backed by empirical evidence such as (Rao & Desta, 2016), (Asraf, Marcus, & Barness, 2015) (Naushad & Malik, 2015). The organizational characteristics of each firm do have an influence on the structure of corporate governance followed that upshot in to the impact of performance (Naushad & Malik, 2015) (as cited in (Grove, 2011) .Therefore, in the regression model to nullify this effect the control variable are useful .According to (Naushad & Malik, 2015) Control variable is the variable that held constant in order to assess or clarify the relationship between two other variable. Thus two variables i.e. total asset and financial leverage have been constructed as the control variables. In order to purge the multi-collinearity effect natural logs of the variables are taken.

Leverage (LEVG): Leverage measured by the ratio of total debt to total asset of sampled commercial banks in Ethiopia.

Bank Size (BS): Commercial bank’s size is measured by natural log value of the total amount of assets owned by sampled commercial banks in Ethiopia bank.

3.7. Model Specification

(Rao & Desta, 2016) As cited in Himmelberg, Hubbard & Palia (1999) argue that many prior cross-sectional studies fail to control for unobserved firm heterogeneity and therefore the relations documented may be spurious. Relying on a panel approach therefore allows to better control for time-invariant firm effects as well as other endogeneity concerns. In addition, (Rao & Desta, 2016) suggest the use of panel data analysis allows the unobservable heterogeneity for each observation in the sample to be eliminated and multi-co linearity among variables to be alleviated. Therefore, a panel regression model was employed in this study to estimate the effect of corporate governance variables on the financial performance of Ethiopian commercial banks. This approach was used by (Fatimoh, 2012), (Manini & Abdillahi, 2015) and (Rao & Desta, 2016) the following general empirical research model is developed.

$$Yit = \beta o + \beta 1Git + \beta 2Cit + \varepsilon it$$

Where,

Y/t: represents financial performance of banks at time t.

β0: is the intercept

G/t: is a vector of corporate governance variables.

C/t: Control variables.

εit: the error term which account for other possible factors that could influence ***Y/t*** that are not captured in the model.

The above general empirical research model is changed in to the study variables to find out the impact of corporate governance mechanism on firm financial performance as follows:

$$\begin{aligned} ROA\, it = \ & \beta 0 + \beta 1(BZit) + \beta 2(FBMit) + \beta 3(BGDit) + \beta 4(SRMCit) + \beta 5(DIit) \\ & + \beta 6(LEVGit) + \beta 7(BSit) + \varepsilon it \end{aligned}$$

Where,

i denote banks ranging from 1 to 14 (Cross-sectional dimension)

t denote years ranging from 2012-2016 (Time-series dimension)

ROA_{it}	Return on Asset for i^{th} bank and time period t
BZ_{it}	Board Size for i^{th} bank and time period t
FBM_{it}	Frequency of Board Meeting for i^{th} bank and time period t
BGD_{it}	Board Gender Diversity for i^{th} bank and time period t
$SRMC_{it}$	Separate Risk Management Committee for i^{th} bank and time period t
DI_{it}	Corporate Governance Disclosure Index for i^{th} bank and time period t
$LEVG_{it}$	Leverage for i^{th} bank and time period t
BS_{it}	Bank Size for i^{th} bank and time period t

3.8. Data Analysis Method

In this study to analyze the collected data both descriptive, correlation and multiple panel linear regression data analysis method were employed. The descriptive statistics was used to quantitatively describe the important features of the variables using mean, maximum, minimum and standard deviations. The correlation analysis was used to identify the relationship between the independent, dependent and control variables using Pearson correlation analysis. The correlation analysis shows only the degree of association between variables. Therefore, multiple panel linear regression analysis was also used to test the hypothesis and to explain the relationship between corporate governance variables and financial performance measures by controlling the influence of some selected variables. Eviews 9 software was used for analysis and the results were presented through tables.

Table 3.1: Summary of variable description measurement and expected sign

Variables	Description	Measurement	Expected Sign
BZ	Board Size	Total number of directors in the board room in each year	+
FBM	Frequency of Board Meeting	Total number of board meeting conducted in each year	+
BGD	Board Gender Diversity	The ratio of the number of female directors to board size in each year	+
SRMC	Separate Risk Management Committee	Dummy variable 1 if there is a separate risk committee, if not 0	+
DI	Corporate Governance Disclosure Index	The ratio of disclosure score a bank to its maximum obtainable score	+

CHAPTER FOUR

4 Data Presentation and Analysis

4.1 Introduction

This chapter presents descriptive statistics and correlation analysis are made to achieve the objective of this study. Descriptive analysis was to describe the corporate governance variables that were considered. Pearson correlation and regression were used to measure the degree of association between selected corporate governance variables and financial performance.

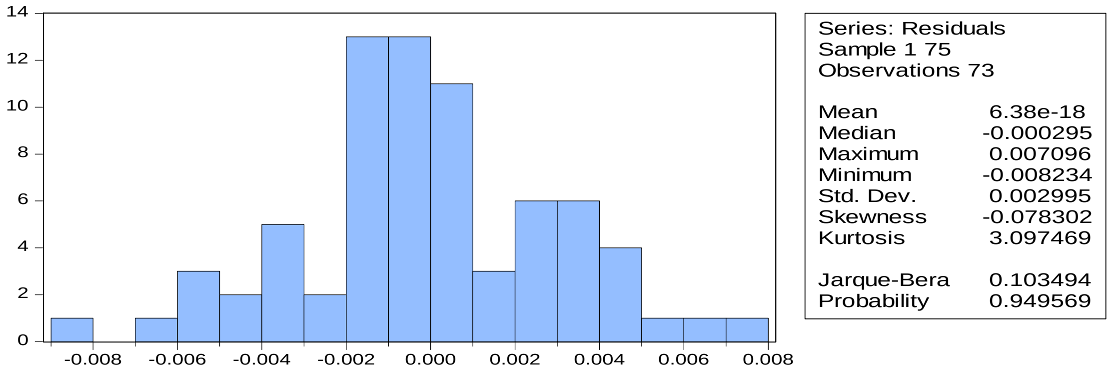
4.2 Classical Linear Regression Model Assumptions and Diagnostic tests

This section discusses the test for the assumption of classical linear regression model (CLRM). They are normality, autocorrelation, heteroskedasticity and multicollinearity

4.2.1. Test for Normality

In order to test hypothesis, the assumption that error term is normally distributed. The normal distribution is a convenient one to use for it involves only two parameters (its mean and variance). Its characteristics is ‘bell shape’ and its symmetry around the mean (Brooks, 2008). According to (Brooks, 2008) one of the most commonly applied test is the Bera-Jareque (BJ) test and if the residuals are normally distributed, the histogram should be bell-shaped and the Bera -Jarque statistic would not be significant. This means that the p-value given at the bottom of the normality test screen should be greater than 0.05 to support the null hypothesis of presence of normal distribution at the 5 percent level.

Figure 4-1: Normality Test Result



Source: Source: Eviews normality test result

The above diagram witnesses that normality assumption holds, i.e. the Bera-Jarque statistic has a P-value of 0.94 implying that the data were consistent with a normal distribution assumption. Also, it implies that the inferences made about the population parameters from the sample parameters tend to be valid

4.2.2. Test for Autocorrelation

According to (Brooks, 2008) the term autocorrelation may be defined as ‘correlation between members of series of observations ordered in time (as in time series data) or space (as in cross-sectional data). The classical model assumes that the disturbance term relating to any observation is not influenced by the disturbance term relating to any other observations. This study uses Breusch-Godfrey Serial Correlation LM test to examine a joint test for autocorrelation that will allow examination of the relationship between error term and several of its lagged values at the same time. Thus, Breusch-Godfrey test was conducted for the model and found no problem of autocorrelation for the model because as shown in the table below its probability value is 21.4% which is more than 5%, so that, autocorrelation does not exist.

Table 4-1- Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.58100723518	Prob. F(2,63)	0.213822630
Obs*R-squared	3.48881014290	Prob. Chi-Square(2)	0.174748921

Source: Eviews autocorrelation test result

4.2.3. Test for Heteroskedasticity

Heteroskedasticity is an important assumption of the classical linear regression model. This test is conducted to check one of the assumptions of the CLRM, that the disturbances Ui appearing in the population regression function are homoscedastic; that is, they all have the same variance. If the disturbances do not have a constant variance, they are said to be heteroskedasticity (Brooks, 2008). To test for heteroskedasticity, the researcher used White's test. The table below shows that there was no problem of heteroskedasticity or the error variance is constant since both the F- statistic, Chi-Square versions of the test and 'Scaled explained SS' Statistic gave the same conclusion that there is no evidence for the presence of heteroscedasticity. This means the null hypothesis was not rejected which says that the error variance is constant.

Table 4-2 Test for Heteroskedasticity-White

Heteroskedasticity Test: White

F-statistic	0.51096819	Prob. F(33,39)	0.9743115
Obs*R-squared	22.0350771	Prob. Chi-Square(33)	0.9268118
Scaled explained SS	18.3215072	Prob. Chi-Square(33)	0.9817529

Source: Eviews Heteroskedasticity test result

4.2.4. Multicollinearity Test

The other assumption of the CLRM is that there is no multicollinearity among the repressor's included in the regression model. According to (Brooks, 2008), if multicollinearity is perfect, the regression coefficients of the X variables are indeterminate and their standard errors are infinite. If multicollinearity is less than perfect, the regression coefficients although determinate, possess large standard error (in relation to the coefficients themselves), which means the coefficients cannot be estimated with great precision or accuracy. Hair et al. (2006) argued that correlation coefficient below 0.9 may not cause serious multicollinearity problem. The method used in this study to test the existence of multicollinearity was by checking the Pearson correlation between the independent variables. The correlations between the independent variables are shown in table 4.3 below. All correlation results are below 0.52, which indicates that multicollinearity is not a potential problem for this study. In general, all tests illustrated above were testimonials as to the employed model was not sensitive to the problems of violation of the CLRM assumption.

Table 4-3: Correlation Matrix among Independent Variables

	BZ	BGD	FBM	SRMC	DI	BS	LEVG
BZ	1.0000000						
BGD	0.04104594	1.00000					
FBM	0.33327993	0.13173	1.00000				
SRMC	-0.4166259	0.1696722	-0.1276651	1.00000			
DI	-0.1916827	0.2061967	-0.2634565	0.2369072	1.00000		
BS	-0.2901593	-0.198026	-0.1602779	0.52149231	0.14249118	1.00000	
LEVG	-0.1071751	0.3493496	0.21733023	0.21328657	-0.1171535	0.06346209	1.00000

Source: Eviews multicollinearity test result

4.3 Descriptive Statics Results

Table 4.4 provides a summary of the descriptive statistics of the dependent and independent variables for fifteen Ethiopian commercial banks for a period of five years from year 20012-2016 with a total of 73 observations. The table includes the mean, median, standard deviation, number of observations, minimum and maximum for the independent and dependent variables of the model.

As shown in chapter three, return on asset show the profitability of the company's assets in generating profits. In other words, it indicates the effectiveness of the firm's assets in increasing shareholders economic interests. It also shows the efficiency of management in using its asset to generate earnings (Rao & Desta, 2016). It was measured as net income after tax divided by total asset. The average value of return on asset for the sample Ethiopian commercial Banks is 2.6 percent (mean=0.026) with a maximum and minimum value of 3.5 percent (0.035) and 1.8 percent (0.018) respectively. At the same time, the standard deviation is 0.4 percent from the average value. This result indicates that most performing bank among the sampled banks earned 0.035 cents of profit after tax for a single birr invested in the assets of the firm. On the other hand, less efficient banks' during study period from the sampled banks earn of 0.018 cents for each birr invested in the assets of the firm.

Table 4-4 Descriptive Statistics Results

Descriptive Statistics						
Variables	***Mean***	***Median***	***Maximum***	***Minimum***	***Std. Dev.***	***Observations***
ROA	0.026	0.026	0.035	0.018	0.004	73
BZ	10.123	10.000	12.000	7.000	1.499	73
BGD	0.123	0.111	0.333	0.000	0.084	73
FBM	24.973	24.000	48.000	7.000	12.569	73
SRMC	0.877	1.000	1.000	0.000	0.331	73
DI	0.418	0.395	0.737	0.342	0.098	73
BS	9.864	9.916	11.381	8.628	0.494	73
LEVG	8.776	6.375	48.024	1.615	9.162	73

Source: Views summery statistics result

Standard deviation statistics for return on asset was 0.4 percent which shows that there is no that much significant difference among sample banks in terms of their performance. In the other hand during study period commercial banks in Ethiopia generate 2.6 percent income on average from mobilizing their asset. The result implies that these banks need to optimize the use of their assets to increase the return on their assets.

Regarding explanatory variable there are some imperative statistics that have to be mentioned. Board size of sample commercial banks which is measured as number of directors set on board. It is confirmed in the table above the average board size is about 10.12 with a minimum of 7, a maximum of 12 directors with a standard deviation of 1.50. Commercial banks in Ethiopia have relatively dissimilar board sizes. On average they had slightly higher than suggested by (Rao & Desta, 2016) (as cited in Jensen (1983). He suggested that a board should have a maximum of seven or eight members to function effectively. However, (Rao & Desta, 2016) (as cited in Kyereboah- Coleman and Biekpe (2006) suggested a maximum board size of twelve and a minimum of four. In Ethiopia case National Bank of Ethiopia currently propose corporate governance guidelines for Ethiopia commercial banks with postulates minimum number board size for each banks should be nine (NBE D. N., 2015). The standard deviation indicates that for the sampled Commercial Banks board size varies by 1.50 from the average value of 10.12 or 10 directors. This also indicates as there is low dispersion in the board size of the sample commercial banks during study period.

The average proportion of women directors is about 12 percent with a minimum of 0 percent and a maximum of 33 percent with standard deviation of 8%. Which is measured by percentage of female directors divided by total number of directors in the board room. Based on the descriptive statistics the boards of commercial banks in Ethiopia are less diverse in terms of gender. They have relatively small number of women directors. In other words, Ethiopian commercial banks boards are male dominated.

Furthermore, another interesting observation is that there was somewhat a higher variation in frequency of board meeting during study period which is measured as number of directors meeting in the year, on average is 24.97. The standard deviation values of 12.57 with the minimum of 7 and the maximum of 48. This result indicates that in sample commercial banks during study period there is a company which conduct highly frequent meeting in a year at the maximum of 48 times however in sample Commercial Banks there is a company which conducts meeting only 7 times during a year. The result further stipulates as there is high variation in conducting a meeting among Commercial Banks during study period by 12.57 or 13 meeting times. Generally the sample Commercial Banks conduct meeting 24.97 or 25 times on the average which is high when we compare with currently proposed corporate governance guidelines by National Bank of Ethiopia for commercial banks which postulates as each Commercial Banks should at least conduct meeting of 12 times in a year (NBE D. N., 2015)

With regard to the availability of separate risk management committee, on average the sample banks have risk committee 87.7% of the time. A maximum of 1 shows that there are banks with risk committee and a minimum of 0 shows that there are banks without risk committee. Availability of risk committee is one of the manifestations of having good corporate governance mechanism. In case of Ethiopian banks, even if the practice of having risk committee on the board is improving from time to time, there are banks which are still without this subcommittee.

The average corporate governance disclosure level of commercial banks in Ethiopia is 42 percent with a maximum of 74 percent and a minimum of 34 percent with a standard deviation of 10 percent. Observing the minimum and maximum percentage of disclosure, it looks commercial banks in Ethiopia have differences in corporate governance disclosure practice.

The mean value of bank size as measured by the natural logarithm of total asset is 8.22 with having a maximum value of 11.38 and a minimum values of 8.62. The standard deviation of bank size among the sample commercial bank is 0.49. On the other hand, the leverage of selected commercial banks in Ethiopia is 8.7 on average as measured by debt to equity with a range of 48 to 1.6. There is higher deviation, 9.1, from the mean value of financial leverage.

4.4 Correlation Analysis Results among Governance Variables and ROA

Pearson Correlation was made to establish association between variables. The following table give details about the correlation among variables taking based on the models ROA. The correlation coefficient shows the extent and direction of the linear relationship between considered corporate governance variables and financial performance of commercial banks proxy by ROA of the sample banks in Ethiopia during study period. Accordingly in table 4.5 the correlation matrix which shows the relationship of the return on asset with board size, proportion of female directors in board, director's frequency of meeting, availability of risk management committee, level of corporate governance disclosure, and banks financial leverage and bank size. The following table give details about the correlation among variables

Table 4-5: Correlation Matrix for the Model ROA

	ROA	***BZ***	***BGD***	***FBM***	***SRMC***	***DI***	***BS***	***LEVG***
ROA	1.0000							
BZ	0.1866	1.0000						
BGD	-0.3168	0.0410	1.0000					
FBM	0.3510	0.3333	0.1317	1.0000				
SRMC	-0.1938	-0.4166	0.1697	-0.1277	1.0000			
DI	-0.0230	-0.1917	0.2062	-0.2635	0.2369	1.0000		
BS	0.3120	-0.2902	-0.1983	-0.1603	0.5215	0.1425	1.0000	
LEVG	-0.0151	-0.1072	0.3493	0.2173	0.2133	-0.1172	0.0635	1.0000

Source: Eviews correlation result based on the data obtained from sample commercial banks

Table 4-5 presents the correlation coefficients of the variables. The dependent variable, ROA, is negatively related with three independent variables while it is positively related with the remaining variables. From correlation matrix, board size and frequency of board meeting are positively correlated with ROA. However, board gender diversity, corporate governance disclosure level and availabilities of separate risk committee in the board are negatively associated with ROA. Moreover, the two moderating variables, financial leverage and bank size are negatively and positively associated with ROA respectively. Based on this model corporate governance variables considered do have statistically significant association with return on asset.

Further, the correlation result suggest in table 4-5 the Pearson correlation coefficients of board size, female directors in board, director's frequency of meeting, availability of risk management committee, level of corporate governance disclosure, are 18 percent , 31 percent, 35 percent, 19 percent and 2 percent respectively. From this it can be conclude that all variables except level of corporate governance disclosure does have strong association with ROA. With the same vein the control variables banks financial leverage weakly correlated with 1% and bank size has strongly correlated with 31 percent correlation coefficient level. However, as it is shown in the above correlation matrix control variables bank size is significantly correlated with return on asset.

Generally, the correlation analysis shows that the degree and directions of association of some study variable and financial performance proxy by ROA. The correlation analysis shows only the direction and degree of association between variables and it does not permit the researcher to make causal inferences regarding the relationship between the identified variables. Therefore, it is not possible to explain the relationship between corporate governance variables and performance measures by controlling the influence of some selected variables using correlation analysis. As a result the main analysis is left for regression analysis that overcomes the shortcomings of correlation analysis

4.5 Results of Regression Analysis

This section covers the empirical regression model used in this study and the results of the regression analysis. The panel data is used to run the regressions to investigate the Impact of corporate governance mechanism on Ethiopian commercial banks financial performance measured by return on asset. In doing this, the empirical models were developed in chapter three to guide the analyses are provided as follows:

$$\boldsymbol{ROA\,it} = \boldsymbol{\beta 0} + \boldsymbol{\beta 1}(\boldsymbol{BZit}) + \boldsymbol{\beta 2}(\boldsymbol{FBMit}) + \boldsymbol{\beta 3}(\boldsymbol{BGDit}) + \boldsymbol{\beta 4}(\boldsymbol{SRMCit}) + \boldsymbol{\beta 5}(\boldsymbol{DIit}) + \boldsymbol{\beta 6}(\boldsymbol{LEVGit}) + \boldsymbol{\beta 7}(\boldsymbol{BSit}) + \varepsilon\boldsymbol{it}$$

Further they are two broad classes of panel estimator approaches that can be employed in financial research: fixed effects models (FEM) and random effects models (REM) (Brooks, 2008). A common practice in corporate governance research is to make the choice between both approaches by running a Hausman test. To conduct a Hausman test the number of cross section should be greater than the number of coefficients to be estimated. In this study the numbers of coefficients are less than the number of cross sections so it is possible to conduct a Hausman test. To check which of the two (FEM or REM) models provide consistent estimates for this study Hausman test was employed and the result is presented as follows:

Table 4-6: Correlated Random Effects - Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.030794821	7	0.7762236

Source: Eviews Hausman test result

The null hypothesis of the test was that the random effect method is the preferred regression method. Tables 4.6 show the p-value for the test is statistically insignificant at five percent, which indicate that the null hypothesis was not rejected. Hence, the random effect was preferable. Accordingly, REM was employed to estimate the relationship between the dependent and independent variables.

Table 4-7 Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BZ	0.000424	0.000410	1.034909	0.3045
BGD	-0.013364	0.006173	-2.164930	0.0341**
FBM	0.000163	4.65E-05	3.500798	0.0008***
SRMC	-0.004845	0.001533	-3.161146	0.0024***
DI	0.007282	0.005270	1.381764	0.1718
BS	0.004444	0.001265	3.513966	0.0008***
LEVG	1.35E-05	7.70E-05	0.174815	0.8618
C	-0.023113	0.013349	-1.731467	0.0881

Weighted Statistics

R-squared	0.351273	Mean dependent var	0.012392
Adjusted R-squared	0.281410	S.D. dependent var	0.003247
S.E. of regression	0.002645	Sum squared resid	0.000455
F-statistic	5.028027	Durbin-Watson stat	1.704735
Prob(F-statistic)	0.000135		

Source: Eview's regression result

****, **, * shows they are statistically significant at 1%, 5% and 10% significance level*

In the ROA model above the adjusted R-square of the model is equal to 0.28 which indicates 28 percent of the dependent variable (ROA) is explained by the variables included in the regression. The corporate governance and control variables altogether explain only 28% of the variation in ROA. The F- statistic of the ROA regression is equal to 5.028 and the associated F-statistic probability is equal to 0.0001, so reject the null hypothesis that all slope coefficients excluding the constant are zero with 1% significance level. As a result, the model is considered significantly better than would be expected by chance and there is linear relationship of ROA to the independent variables.

Table 4.7 shows the results of model ROA. The variable BZ has a t – statistic equal to 1.035 and a p – value equal to 0.3045. This coefficient is not statistically significant at a 5% significance level. Therefore, the null hypothesis that the coefficient is equal to zero cannot be rejected, in other words, BZ does not have any impact on ROA. The variable BGD which refers to the proportion of women directors in the board of directors has a t – statistic equal to -2.165 and a p – value equal to 0.034 leading to the conclusion that this coefficient is statistically significant at a 5% significance level and the hypothesis that it is equal to zero, can be rejected. In other words, a higher proportion of women directors in the board room do have statistically significant impact on ROA. Moreover, FBM has a t – statistic equal to 3.500 and a p – value equal to 0.0008. This coefficient is statistically significant at a 1% significance level. Therefore, the null hypothesis that the coefficient is equal to zero can be rejected, in other words, FBM do have an impact on ROA. Similarly, SRMC has a t – statistic equal to -3.161 and a p – value equal to 0.0024. This coefficient is statistically significant at a 1% significance level. Therefore, the null hypothesis that the coefficient is equal to zero can be rejected, in other words, SRMC do have an impact on ROA. Moreover, the coefficients of corporate governance disclosure(DI) has a t – statistic equal to 1.381 and a p – value equal to .171, so the null hypothesis that the slope coefficient is zero with 5% confidence level cannot be rejected. In other words, corporate governance disclosure level of commercial banks had no effect on ROA. The coefficients of control variable BS has a t – statistic equal to 3.514 and also a p – value equal to .0008, hence the null hypothesis that the slope coefficients is zero with 1% confidence level can be rejected. In other words, BS has a statistically significant effect on ROA. The coefficients of LEVG has a t – statistic equal to 0.174 and also a p–value equal to 0.861, hence the null hypothesis that the slope coefficients is zero with 5% confidence level cannot be rejected. In other words LEVG, does not have a statistically significant effect on ROA.

4.5.1. Analysis and Discussion

This section of the chapter discusses some of the main implications of the results. The analysis is based on the results of the regression between the dependent variable and the independent variables presented in table 4.7

4.5.1.1. Board Size

As shown in the table 4.7 this study indicates that, there is a positive statistically insignificant association between board size (BZ) and return on asset (ROA). There is an argument that larger boards of directors gather more human capital and this in turn boosts its effectiveness both in terms of monitoring and advising management. However, a critics is when a board gets to big it becomes difficult to co-ordinate, encourages free riding and poses problems. Therefore, small boards might reduce the possibility of free riding and increase the accountability of individual directors (Rao & Desta, 2016).

The positive, but a statistically insignificant relationship between the Board size and the ROA indicates that even though the board size do not have an impact in commercial banks performance, the market perceives it as a good corporate governance practice. This positive and statistically insignificant result indicate that, large board of directors might not gather competent and qualified human capital or they are unable to boost its effectiveness both in terms of monitoring and advising management. This finding is also consistence with (Abdul-Quadir & Kwanbo, 2012) which found a positive and statistically insignificant relationship exist between board size and return on asset. Moreover, the positive relation does not go with agency theory and stakeholder's theory which thoughts that the large board members being the agents, tend to look after their own interests.

Regarding the optimal board size, there are different arguments such as (Al-Sahafi, Rodrigs, & Barness, 2015) they argue that an increase in the board size guarantees an increase in the performance of the banks. Accordingly, they recommends that the bank should have a large board (between 9 to 11 members) as it contributes to better financial performance. On the other hand Rao & Desta, 2016 as cited in Jensen (1983) suggested that a board should have a maximum of seven or nine members to function effectively.

More additionally, (Rao & Desta, 2016), (Kibrysfaw, 2013) and (Abdul-Quadir & Kwanbo, 2012) found no relationship between board size and firm performance. The result also indicates as the proposed national bank of Ethiopia corporate governance guideline for commercial bank sector which say a bank shall have at least nine directors was not empirically supported.

Therefore based on this premise, the null hypothesis which states there is no statistically significant relationship between board size and banks performance in Ethiopia cannot be rejected. In other words, BZ does not have any impact on ROA

4.5.1.2. Frequency of Board Meeting

As shows in table 4.7 above this study indicates existence of statistically significant (P-value= 0.0008) positive association between board frequency of meeting and return on asset at 1% significant confidence level. The result is consistent with this study expectation. Board meeting refers to the gathering of directors on the board to discuss issues regarding the company. It measured as the number of meetings during a year by a company board of directors. Board meetings play a significant role to the success of a company as it serve as an important avenue for effective decision making of a company (Kakanda, Salim, & Chandren, 2016). A possible theoretically explanation of the positive relation between the frequency of board meetings and the

ROA supports the idea that corporate boards that meet more frequently have increased capacity to effectively advise, monitor and discipline management and thereby improving corporate financial performance. This result provide empirical support for agency theory. This finding is consistent with (Ntim & Osei, 2011) who study a sample of 169 listed corporations from 2002 to 2007 in South Africa, and found a statistically significant and positive association between the frequency of corporate board meetings and corporate performance, which implying that South Africa boards that meet more frequently tend to generate higher financial performance.

By contrast, it does not support the results of studies such as (Johl, Kaur, & Cooper, 2015), (Taghizadeh & Saremi, 2013) and (Akpan, 2015) result shows that the board meetings are negatively statistically significant relation with firm performance. They argue that the result indicates that the more frequent the board meetings are held, it has an inverse effect on firm performance, because too frequent meetings can lead to resources being channeled towards less productive activities. Therefore based on this premise, the null hypothesis which says there is no statistically significant positive relationship between the frequency of board meetings and Banks financial performance, as measured by ROA is rejected by this data.

4.5.1.3. Board Gender Diversity

As shows in table 4.7 above this study indicates existence of statistically significant (P-value= 0.034) negative association between board gender diversity and return on asset at 5% significant confidence level. The result is inconsistent with this study expectation as gender diversity has statistically significant positive association with ROA. However, this result supports the result of the studies such as (Ajanthan, Balaputhiran, & Nimalathashan, 2013) found that strong (5% level of significance) negative relationship with gender diversity and financial performance in state banks in Sirilanka. Similarly, (Kilie, 2015) reports that board gender diversity has statistically significant negative impact on financial performance on banks in Turkey. It implies that gender diversity in board room can be a disadvantage, especially in terms of group performance, different styles, attitudes and perspectives may increase conflict, reduce cohesion and hinder communication and coordination within the team.

By contrast, it does not support the results of studies such as (Taghizadeh & Saremi, 2013) found a positive and statistically significant (1% level of significant) association between board gender diversity and financial performance on Malaysian Listed Firms. Similarly (Shafique, Idress, & Yousaf, 2014) report a positive relationship between number of women on board and bank performance. Besides, (Campbell & Minguez-Vera, 2008) found a statistically significant positive association between board gender diversity and firm financial performance.

Moreover, the study finding is inconsistence with (Rao & Desta, 2016) and (Yenesew, 2012) found that board gender diversity of commercial banks had no statistically significant effect on their financial performance.

(Manini & Abdillahi, 2015) Argued that gender diversity in the board is supported by agency theory, as the theory is mainly concerned about monitoring role of directors and emphasis the representation from diverse groups will provide a balanced board so that no individual or group of individual can dominate the decision making of the board.

This study find a statistically significant negative association between percentage of women directors and banks financial performance. This may be due to a different perspective might not necessary result in more effective monitoring because women board members may be marginalized. Other reason may be in terms of group performance, different styles, attitudes and perspectives may increase conflict, reduce cohesion and hinder communication and coordination within the team.

Therefore based on this premise, the null hypothesis which states there is no statistically significant relationship between board gender diversity and banks performance in Ethiopia can be rejected. In other words, BGD does have an impact on ROA.

4.5.1.4. Availability of Separate Risk Management Committee

Availability of separate risk management committee (SRMC) on the board had negative impact on banks performance (ROA) and it is statistically significant at 1% significant level. The parameter coefficient of - 0.0048 shows that banks without independent risk management committee on the board significantly out performs those banks with separate risk management committee on their board. This result is not in line with both OECD and Basel Committee as they recommend corporate governance should ensure that risks are understood, managed, and when appropriate communicated and risk committee should be required for systemically important banks and is strongly recommended for other banks based on a bank's size, risk profile or complexity; should be distinct from the audit committee.

The study also inconsistence with NBE's directive, stated Ethiopian banks board should establish separate Risk and Compliance Committee with the objective of to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that risk management process is in place and functioning.

However, the result of the study is consistence with the study such as (Kallamu, 2015) the result obtained indicated that independent RMC is statistically significant negatively related with ROA ($p<0.05$) the negative association could be explained by inadequate monitoring by directors due to their busy schedule or due to inadequate technical knowledge and experience needed to perform the monitoring role effectively.

By contrast, the study does not support (Tazilah & Abdul Rahman, 2014) of RMC is significantly associated with proper governance at the board of directors' level and thus, an effective and adequate Board member tends to have greater oversight monitoring function towards the company's activities.

Therefore based on this premise, the null hypothesis which states there is no statistically significant relationship between the availability of separate risk management committee in the board and commercial banks performance in Ethiopia can be rejected. In other words, SRMC does have an impact on ROA.

4.5.1.5. Level of Corporate Governance Disclosure

As shown in the table 4.7 this study indicates that, there is a positive statistically insignificant association between level of corporate governance disclosure measure by disclosure index (DI) and return on asset (ROA). The result is in line with both the agency and stakeholder's theory implies that firms increase disclosure to avoid potential pressures from regulatory authorities. Strong governance leading to improved disclosure is a key tool in capital market development. In particular it creates confidence among the shareholders/investors who then pay higher prices for the stock.

The study finding is consistence with (Rao & Desta, 2016) found that CGD of commercial banks had no statistically significant effect on their financial performance. However, the direction of the relationship should not be ignored. It is positively associated with ROA. This implies that a higher CGD practice will have a positive influence on the financial performance of banks.

The positive relationship between CGD and ROA is consistence with various researchers such as (Feldioreanu & Seria, 2015), (Srairi, 2015), (Rouf, 2012), (Panehasara & Bharadia, 2013) and (Abdo & Fisher, 2007) reported that a firm profitability is positively associated with its corporate governance disclosure level. Hence, the prior empirical evidence predicts that disclosing more information by companies leads to higher company performance. According to (Srairi, 2015) detailed information disclosure reduces capital cost and has a positive impact on firm performance.

Therefore based on this premise, the null hypothesis which states there is no statistically significant relationship between the level of corporate governance disclosure and commercial banks financial performance in Ethiopia cannot be rejected. In other words, DI does not have an impact on ROA

4.5.1.6. Control Variables: Results and Discussion

In addition to what has been discussed above, table 4.7 depicts the result of the regression analysis between the control variables and financial performance indicators of sample Ethiopian commercial banks, which are interpreted below.

4.5.1.6.1. Bank Size

As shown in the table 4.7 this study indicates that, there is a positive significant association between Bank Size (BS) and return on asset (ROA). And it is statistically significant at 1% significant level with p-value < 0.05 and parameter coefficient of 0.0044. The finding support previous studies and arguments made in which bank size positively influences performance (Rao & Desta, 2016) found a statistically significant positive relationship between BS and ROA.

4.5.1.6.2. Bank Financial Leverage

As shown in the table 4.7 this study indicates that, there is a positive statistically insignificant association between Bank Leverage (LEVG) measured by the ratio of total debt to equity and return on asset (ROA). And it is statistically insignificant as it’s with p-value > 0.05 and parameter coefficient of 1.3. A positive directional sign of the coefficient is implies that an increase in the debt position is associated with increase in performance. The result indicates that banks with higher levels of debt as a proportion of equity is to perform better than those having lower proportion of debt.

The summary of the expected and actual relationships found between the independent and dependent variables are presented in Table 4.8.

Table 4-8: Summary of Actual and Expected Relationship

Independent Variables	Dependent Variables	Expected Relationship	Actual Relationship	Significance at 1%, 5% and 10%
Board Size	ROA	Positive	Positive	Insignificant
Board Gender Diversity	ROA	Positive	Negative	Significant at 5%
Frequency of Board Meeting	ROA	Positive	Positive	Significant at 1%
Separate Risk Committee	ROA	Positive	Negative	Significant at 1%
Level of Corporate Governance Disclosure	ROA	Positive	Negative	Insignificant

CHAPTER FIVE

5. Summary, Conclusion and Recommendation

5.1. Introduction

The objective of this chapter is to discuss the findings, reach conclusion and make necessary recommendations from all quantitative analysis presented in chapter four. The chapter is structured into five sections as follows: section 5.1 work done summary, section 5.2 summarizes the research findings, section 5.3 presents s the conclusion while section 5.4 and section 5.5 for recommendations and suggestions for further study.

5.2. Summary of Findings

The result of regression analysis showed existence of positive but insignificant association between board size (BZ) and return on asset (ROA). This statically insignificant nexus between the Board size and the ROA indicates that, large board of directors might not gather competent and qualified human capital or they are unable to boost its effectiveness both in terms of monitoring and advising management. At the same time, the result indicates as the proposed corporate governance guideline which postulates at least nine directors for one commercial banks is not empirically supported.

The results also show existence of statistically significant positive association between frequency of board meeting and return on asset. A possible theoretically explanation of the statistically significant positive relation between the frequency of board meetings and the ROA supports the idea that corporate boards that meet more frequently have increased capacity to effectively advise, monitor and discipline management and thereby improving corporate financial performance. At the same time, the result indicates as the proposed corporate governance guideline which postulates at least one meeting per month for commercial bank is empirically supported.

The result also shows statistically significant negative association between percentages of women directors and Banks financial performance. This may be due to a different perspective might not necessary result in more effective monitoring because women board members may be marginalized. Other reason may be in terms of group performance, different styles, attitudes and perspectives may increase conflict, reduce cohesion and hinder communication and coordination within the team.

Further the result also show that availability of separate risk management committee does have statistically significant negative impact upon bank's performance as measured in terms of ROA. Hence, the data of this study rejects the premises of null hypothesis which says there is no statistically significant relationship between separate risk management committee and bank's performance in Ethiopian. This result implies that banks without independent risk management committee on the board significantly out performs those banks with separate risk management committee on their board. This result is not in line with both OECD and Basel Committee recommendation as they states that corporate governance should ensure that risks are understood, managed, and when appropriate communicated and risk committee should be required for systemically important banks and is strongly recommended for all banks based on a bank's size, risk profile or complexity; should be distinct from the audit committee. The negative association could be explained by inadequate monitoring by independent directors due to their busy schedule or due to inadequate technical knowledge and experience needed to perform the monitoring role effectively.

Besides, study shows there is a positive insignificant association between level of corporate governance disclosure measure by disclosure index (CGD) and return on asset (ROA). The result is in line with both the agency and stakeholder's theory implies that firms increase disclosure to avoid potential pressures from regulatory authorities. Strong governance leading to improved disclosure is a key tool in capital market development. In particular it creates confidence among the shareholders/investors who then pay higher prices for the stock. The direction of the relationship should not be ignored. It is positively associated with ROA. This implies that a higher CGD practice will have a positive influence on the financial performance of banks.

5.3. Conclusion

Good corporate governance is beneficial to commercial banks in Ethiopia because it facilitates accountability, promotes transparency of operations, improves firm's profitability and enhances growth of the banking industry. Corporate governance helps to protect stakeholders' interest by aligning their interest with that of managers.

From the analysis above, the study therefore conclude that a statistically significant negative relationship exist between bank performance and board gender diversity and availability of separate risk management committee. That is, a reasonably strong correlation exists between poor performance and subsequent increase in woman director in the board which is due to woman directors might be marginalized. Because of the board risk committee's inadequate monitoring by independent directors due to their busy schedule or due to inadequate technical knowledge and experience needed to perform the monitoring role effectively.

Besides, the study therefore conclude that a statistically significant positive relationship exist between bank performance and frequency of board meeting, which implies that corporate boards that meet more frequently have increased capacity to effectively advise, monitor and discipline management and thereby improving corporate financial performance.

Furthermore, the study conclude that positive relationship exist between bank performance and board size and corporate governance disclosure. And also the study conclude that there is no uniformity in the disclosure of corporate governance practices made by banks in Ethiopia.

5.4. Recommendation

On the basis of the findings and conclusions reached, the following recommendations were forwarded.

- ❖ The study revealed that an increase frequency of board meetings increases firm performance, therefore commercial banks in Ethiopia may reconsider to increase number of meetings to optimal number of board meeting year.
- ❖ National Bank of Ethiopia should focus on not only banks whether established separate risk management committee on the board but also should ensure that the committee members have appropriate risk management skill and experience and perform their duties in professional manner.
- ❖ Finally, the researcher recommends that National Bank of Ethiopia should take steps to encourage commercial banks to disclose corporate governance required information.

5.5. Avenues for Future Research and Improvements

This research has gone some way to exploring corporate governance and corporate performance of banks in a broader context. Further research could explore the relationship in more in specific categories for example, in not-for-profit organizations, in government organizations, and in family companies. Since this study focused on the Ethiopian banking sector it would be beneficial to have a clearer understanding of corporate governance roles in other types of organizations. Such research could address the similarities and differences of the roles in different organizations and consider also the legal requirements for different organizations.

Further research is also required on the behavioral aspects of boards . There is therefore the need to go beyond the quantitative research, which is yielding a mixture of results, to perhaps a more qualitative approach as to how boards work. Expanding this current research into a wider study of board dynamics and decision making would be a start in developing a better understanding of corporate governance.

Finally, current study has mainly examined the association between internal corporate governance and banks financial performance. Future studies can investigate how external corporate governance mechanisms affect firm performance.

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Appendix I - questionnaire

Dear Respondent!

My name is Kokeb Million, a post graduate student pursuing a Master degree in the College of Business and Economics at Addis Ababa University. Currently, I am conducting a master's thesis for the partial fulfillment of the master's degree in business administration in management. The purpose of the study is examining the impact of corporate governance mechanism in the performance of Ethiopian commercial banks. To achieve this objective, your genuine and timely responses on the next questionnaire will have a tremendous impact. The questionnaire will take only 30-45 minutes to complete as I recognize that your time is valuable. All information provided will be aggregated for academic purpose only and will be treated in the strict confidentiality. I kindly request your cooperation to return the questionnaire within SEVEN days. I am grateful for your cooperation in providing the following information for the study regarding the bank.

No	***Questions***	***2012***	***2013***	***2014***	***2015***	***2016***
1	Total number of directors in the board each year					
2	Frequency of board meeting in each year					
3	Does Separate Risk Management Committee exist in the bank each year? (yes or no)					
4	Total number of women directors in the board each year					

Appendix II – Corporate Governance Disclosure Index

	I. Financial Disclosures:
1	Financial and Operating Results
2	Related Party Transaction
3	Critical Accounting Policies
4	Statement of Director's responsibilities towards preparation and presentation of financial statements
5	Risk and estimates in preparing and presenting financial
6	Information regarding future plan
7	Dividend
	II. Nonfinancial Disclosures:
	A). Company Objectives:
8	Information about company objectives
	B). Ownership and Shareholders" Rights
9	Ownership Structure
10	Shareholder Rights
	C). Governance Structure and Policies:
11	Size of board/photo and names
12	Composition of board
13	Division between chairman and CEO
14	Chairman's Statement
15	Role and functions of the board
16	Compliance with different legal rules
17	Audit committee
18	Remuneration committee
19	Risk Management Committee
20	Any other committee
21	Composition of the committee
22	Functioning of the committee
23	Organizational code of ethics
	D). Members of the Board and key executives:
24	Biography of the board members
25	No. of board meeting
26	Attendance in board meeting
27	Director stock ownership

28	Director remuneration
	E). Material issues regarding employees, environmental and social stewardship:
29	Employee relation/Industrial relation
30	Environmental and social responsibility
	F). Material foreseeable risk factors:
31	Risk assessment and management
32	Internal control system
	G). Independence of Auditors:
33	Auditor appointment and rotation
34	Auditor fees
	III. Annual General Meeting:
35	Notice of the AGM
36	Agenda of the AGM
	IV. Timing and means of disclosure:
37	Separate Corporate Governance statement/ separate section for corporate governance
38	Annual report through internet
39	Any other event

Source: Adapted from (Ranti U. O., 2011)

Appendix III – List of Commercial Banks in Under Study

No	***Name of the Bank***
1	Abay International Bank S.C
2	Addis International Bank S.C
3	Awash International Bank S.C
4	Bank of Abyssinia
5	Birhan International Bank S.C
6	Buna International Bank S.C
7	Commercial Bank of Ethiopia
8	Cooperative Bank of Oromia
9	Dashen Bank
10	Lion International Bank S.C
11	Nib International Bank S.C
12	Oromia International Bank S.C
13	United Bank
14	Wegagen Bank
15	Zemen Bank

Appendix IV – Result of Regression Analysis

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 05/22/17   Time: 12:05
Sample: 2012 2016
Periods included: 5
Cross-sections included: 15
Total panel (unbalanced) observations: 73
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BZ	0.000424	0.000410	1.034909	0.3045
BGD	-0.013364	0.006173	-2.164930	0.0341
FBM	0.000163	4.65E-05	3.500798	0.0008
SRMC	-0.004845	0.001533	-3.161146	0.0024
DI	0.007282	0.005270	1.381764	0.1718
BS	0.004444	0.001265	3.513966	0.0008
LEVG	1.35E-05	7.70E-05	0.174815	0.8618
C	-0.023113	0.013349	-1.731467	0.0881

Effects Specification

	S.D.	Rho
Cross-section random	0.002301	0.4191
Idiosyncratic random	0.002709	0.5809

Weighted Statistics

R-squared	0.351273	Mean dependent var	0.012392
Adjusted R-squared	0.281410	S.D. dependent var	0.003247
S.E. of regression	0.002645	Sum squared resid	0.000455
F-statistic	5.028027	Durbin-Watson stat	1.704735
Prob(F-statistic)	0.000135		

Unweighted Statistics

R-squared	0.472491	Mean dependent var	0.026336
Sum squared resid	0.000661	Durbin-Watson stat	1.172285

Appendix V – Serial Correlation Test Result

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.581005	Prob. F(2,63)	0.2138
Obs*R-squared	3.488810	Prob. Chi-Square(2)	0.1747

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 05/24/17 Time: 18:59
Sample: 1 75
Included observations: 73
Presample and interior missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BZ	-8.19E-05	0.000296	-0.276791	0.7828
BGD	-0.000708	0.005301	-0.133575	0.8942
FBM	-1.01E-06	3.32E-05	-0.030471	0.9758
DI	-0.000406	0.004251	-0.095595	0.9241
SRMC	-1.27E-05	0.001478	-0.008576	0.9932
BS	-0.000352	0.000963	-0.365964	0.7156
LEVG	1.83E-05	4.75E-05	0.385797	0.7009
C	0.004442	0.009988	0.444693	0.6581
RESID(-1)	0.190971	0.130248	1.466215	0.1476
RESID(-2)	0.111571	0.137278	0.812738	0.4194

R-squared	0.047792	Mean dependent var	4.05E-18
Adjusted R-squared	-0.088238	S.D. dependent var	0.002995
S.E. of regression	0.003124	Akaike info criterion	-8.572673
Sum squared resid	0.000615	Schwarz criterion	-8.258912
Log likelihood	322.9026	Hannan-Quinn criter.	-8.447634
F-statistic	0.351334	Durbin-Watson stat	2.009428
Prob(F-statistic)	0.953388		

Appendix V – Heteroskedasticity Test Result

Heteroskedasticity Test: White

F-statistic	0.510968	Prob. F(33,39)	0.9743
Obs*R-squared	22.03508	Prob. Chi-Square(33)	0.9268
Scaled explained SS	18.32151	Prob. Chi-Square(33)	0.9818

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 05/24/17 Time: 19:01
Sample: 1 75
Included observations: 73

Collinear test regressors dropped from specification

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.000162	0.002256	-0.071666	0.9432
BZ^2	-3.31E-07	1.65E-06	-0.200626	0.8420
BZ*BGD	4.06E-05	4.13E-05	0.984633	0.3309
BZ*FBM	1.05E-07	2.15E-07	0.489347	0.6273
BZ*DI	1.55E-05	2.81E-05	0.551814	0.5842
BZ*SRMC	-3.59E-06	2.29E-05	-0.156815	0.8762
BZ*BS	-3.18E-06	8.13E-06	-0.390608	0.6982
BZ*LEVG	-4.80E-07	5.31E-07	-0.904417	0.3713
BZ	3.18E-05	7.84E-05	0.405796	0.6871
BGD^2	0.000246	0.000630	0.390385	0.6984
BGD*FBM	-6.40E-06	4.13E-06	-1.551295	0.1289
BGD*DI	0.000792	0.000493	1.605244	0.1165
BGD*SRMC	0.003381	0.003377	1.001181	0.3229
BGD*BS	-5.25E-05	0.000155	-0.339459	0.7361
BGD*LEVG	2.90E-06	7.79E-06	0.371963	0.7119
BGD	-0.003510	0.003641	-0.964042	0.3410
FBM^2	6.66E-09	2.06E-08	0.322497	0.7488
FBM*DI	-1.02E-05	6.02E-06	-1.688909	0.0992
FBM*SRMC	6.58E-07	1.37E-06	0.481550	0.6328
FBM*BS	9.79E-07	9.08E-07	1.079086	0.2872
FBM*LEVG	8.38E-09	6.30E-08	0.132967	0.8949
FBM	-6.94E-06	9.19E-06	-0.755075	0.4547
DI^2	-0.000357	0.000227	-1.572313	0.1240
DI*SRMC	-0.000474	0.000714	-0.663848	0.5107
DI*BS	-0.000133	0.000113	-1.175049	0.2471
DI*LEVG	-8.20E-07	1.23E-05	-0.066804	0.9471
DI	0.002120	0.001395	1.519717	0.1366
SRMC*BS	-8.16E-06	6.16E-05	-0.132502	0.8953
SRMC*LEVG	-6.60E-06	1.95E-05	-0.338779	0.7366
BS^2	5.88E-06	2.82E-05	0.208844	0.8357
BS*LEVG	-6.11E-08	3.20E-06	-0.019091	0.9849
BS	-4.24E-05	0.000455	-0.093310	0.9261
LEVG^2	-4.17E-08	7.01E-08	-0.594451	0.5556
LEVG	1.36E-05	3.43E-05	0.396594	0.6938

R-squared	0.301850	Mean dependent var	8.85E-06
Adjusted R-squared	-0.288892	S.D. dependent var	1.29E-05
S.E. of regression	1.46E-05	Akaike info criterion	-19.12031
Sum squared resid	8.36E-09	Schwarz criterion	-18.05352
Log likelihood	731.8913	Hannan-Quinn criter.	-18.69517
F-statistic	0.510968	Durbin-Watson stat	2.529042
Prob(F-statistic)	0.974312		

Appendix VI – Hausman Test Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.030795	7	0.7762

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
BZ	0.001194	0.000424	0.000000	0.2211
BGD	-0.007252	-0.013364	0.000035	0.3031
FBM	0.000237	0.000163	0.000000	0.1732
SRMC	-0.004881	-0.004845	0.000001	0.9658
DI	0.006974	0.007282	0.000014	0.9351
BS	0.003330	0.004444	0.000004	0.5773
LEVG	-0.000158	0.000013	0.000000	0.4329

Cross-section random effects test equation:
Dependent Variable: ROA
Method: Panel Least Squares
Date: 05/24/17 Time: 19:03
Sample: 2012 2016
Periods included: 5
Cross-sections included: 15
Total panel (unbalanced) observations: 73

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.020870	0.023745	-0.878930	0.3836
BZ	0.001194	0.000751	1.589998	0.1180
BGD	-0.007252	0.008563	-0.846935	0.4010
FBM	0.000237	7.14E-05	3.314397	0.0017
SRMC	-0.004881	0.001745	-2.797551	0.0072
DI	0.006974	0.006487	1.074995	0.2874
BS	0.003330	0.002366	1.407252	0.1654
LEVG	-0.000158	0.000232	-0.681482	0.4986

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.701509	Mean dependent var	0.026336
Adjusted R-squared	0.578602	S.D. dependent var	0.004173
S.E. of regression	0.002709	Akaike info criterion	-8.740548
Sum squared resid	0.000374	Schwarz criterion	-8.050273
Log likelihood	341.0300	Hannan-Quinn criter.	-8.465462
F-statistic	5.707605	Durbin-Watson stat	2.085346
Prob(F-statistic)	0.000000		