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A study on

**THE APPLICATION OF CORPORATE GOVERNANCE
PRINCIPLES IN DASHEN BANK**

BY

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Leadership

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DECLARATION

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other university, and that all source of material used for the thesis have been duly acknowledged.

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Statement of Certification

Here with, I state that W/o Belaynesh Beshah Haile has carried out this research work on the topic entitled ‘a study on the Application of Corporate Governance principles in Dashen Bank S.C’ under my supervision. This research work is original in nature and has not presented for a degree in any university, which all sources of materials used for the study have been duly acknowledged and it is sufficient for submission for the partial fulfillment for the award of Master of Arts in Business Leadership.

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LIST OF ACRONYMS

CEO	Chief Executive Officer
CG	Credit Guarantee
DB	Dashen Bank
NBE	National Bank of Ethiopia
OECD	Organization for Economic Co-operation and Development
S.C.	Share Company
UK	United Kingdom
US	United States

Abstract

Corporate governance is becoming the major building stone for most organizations. It serves as the nervous system of organizations to communicate among all participants and interest groups. The importance of corporate governance is extended to the banking sector. Research indicates that banks without corporate governance fails in their operation. For this sake the organization of economic co-operation and development, and the Basel committee for bank supervision has developed a standard to be adopted. In addition to this the National bank of Ethiopia has prepared a guideline to be used by banks. The purpose of this study was to see how well corporate governance concepts are implemented at the Dashen Bank. To fulfill the research's goal, a descriptive case study was used. The study included all nine board managers, as well as the senior managers and the board secretary, for a total of 18 participants. The quantitative data was examined using written explanations, whereas the data received by questionnaire was evaluated using frequency and percentage values. Furthermore, the qualitative data (interview data) was evaluated alongside the quantitative data to triangulate the questionnaire results. The findings show that the extent to which corporate governance principles are applied in the Dashen Bank is positive, even though the bank still has issues with improving the board's efficiency and effectiveness, as well as transparency and disclosure of relevant information. As a result, the study provided some feasible solutions for resolving the issues.

Key words: corporate governance, corporate governance principles, Dashen Bank

CHAPTER 1 INTRODUCTION

1.1 Background of the study

Significant changes in the interactions between participant groups and corporate structures have resulted from the ongoing process of globalization and liberalization. The most notable of the reasons for shift is institutional investors' rising holding of equity shares. Increases in foreign and/or internal portfolio investments, as well as other achievements in the privatization process, have increased the number of company investors. Market participants began to demand that they have a say in company governance and that their rights be protected (Brancato, 1997).

The term "principles of corporate governance" refers to the connection between the company's members, which is based on principles and norms. It primarily safeguards the company's and its participant groups' rights and outlines their responsibilities (Massie, 2000). To a large extent, various participant groups are responsible for the company's development performance. Higher performance is a result of shared benefits, and this performance pays back to the company's members in the form of an economic contribution (OECD, 1999).

Since the 1980s, corporate governance principles act as a control mechanism for a company's operations, encouraging managers to be more effective and to improve the company's performance through long-term initiatives (Claessens, 2006). Privately held businesses, notably banks, are big fans of corporate governance concepts. The reason for this is that banks are expected to play a significant role in many economies; they are critical for growth and effective

capital allocation. As a result, banks are seen as critical organizations in any economy because they serve as a major source of financing for enterprises. Their importance grows in growing nations, such as our own, where the banking sector provides the majority of financing to new and established enterprises, rather than the stock market (Business Environment Group,1998).

However, having this critical responsibility necessitates a grasp of the fundamental factors for enhancing the bank's performance and function in the economy. While the implementation of corporate governance principles is seen as a crucial component of bank operations, the researcher questions if our country's banks (particularly the private ones) have placed a premium on this issue. This is something that the paper tries to address.

The governance principles have gradually become the criteria with which the companies must comply in order to be competitive enough. Compliance with the principles of corporate governance is a determining factor for performing well on a permanent and consistent basis thereby help increase confidence in the company, reduce the cost of capital and induce a suitable ground for procuring long-term financing. The board's responsibilities for setting policy and strategic direction for the organization, as well as monitoring management's performance against that, are outlined in the governance principles. These principles shape the organization's framework for accountability, transparency, probity, and respect for the rights of all stakeholders (Massie, 2000). Given its importance, adhering to corporate governance standards is now regarded a must rather than a choice for all countries' businesses (Berger et al. 2004).

Over time, a bank that follows corporate governance principles will perform better, and excellent governance can minimize risk and attract further investment (Agrawal et al., 1996). There is no single model for good corporate governance, according to Gregory (2000). Corporate governance standards have been identified by the OECD and the Basel Committee on Banking Supervision based on some similar components. These principles are non-binding and are only intended to serve as a guide for countries and businesses. Within their own national legislative and regulatory frameworks, countries can set their own corporate governance rules. Corporate governance practices should evolve in tandem with the ever-changing competitive landscape.

Dashen Bank was founded by eleven visionary shareholders and veteran bankers with initial capital of Birr 14.9 million in September 1995. Upon securing license from the National Bank of Ethiopia, Dashen opened its doors for service on the 1st of January 1996 with eleven fully-fledged branches.

Headquartered in Addis Ababa, the Bank is among the biggest private Banks in Ethiopia. It operates through a network of more than 400+ Branches, ten dedicated Forex Bureaus, 350+ ATMs and 850 plus Point-of-Sale (POS) terminals spread across the length and breadth of the nation.

The purpose of this study is therefore to see how well corporate governance principles are implemented in DASHEN BANK, in comparison to the principles identified by the Organization for Economic Co-operation and Development (OECD) and the Basel Committee on Banking Supervision.

1.2 Statement of the Problem

The banking industry, in particular, and financial institutions in general, account for a major amount of the business of developing countries, including our own. As a result, practically every company has a direct link with a bank or other financial institution (Shleifer & Vishny, 1997). The impact on economic growth is determined by bank efficiency. As a result, attempts to improve operational capabilities and capacities within banks must be prioritized, as over-emphasizing or under-estimating the best position suitable to banks may result in a slew of problems for bank operations in particular, as well as economic development in general. The corporate governance philosophy must be implemented in the banking industry as one, if not the most important, of these attempts to improve bank operations.

Given banks' critical financial intermediation role in the economy, they are acutely aware of the potential for problems stemming from poor corporate governance. The necessity to protect depositor funds, as well as corporate governance for banking organizations, is critical to the national and international financial systems, and needs supervisory attention (Basel Committee for Banking Supervision, 2006). Without meeting the prerequisites (or simply put principles/standards of) for effective corporate governance, a bank's excellence in terms of customer happiness, return, product and service, return to promoters, and social duties towards society cannot be realized.

Corporate governance principles are founded on a new structural method that enables organizations to achieve profitability, development, and compatibility in their main sectors. The nature of the connection between shareholders, members of the board of directors, managers,

employees, and other corporations and persons with whom the company has business ties is established by the rules or standards of corporate governance. It primarily safeguards the company's and its participant groups' rights and outlines their responsibilities. As a result, corporate governance rules are critical in defining the rights and obligations of the aforementioned groups as well as ensuring investor trust (Massie, 2000). Babic (2000) supports this by stating that establishing corporate governance principles or standards in banks in developing economies, such as ours, is critical for the following reasons:

- First, banks hold an immensely dominating position in the financial systems of most economies, and they are vital engines of economic growth.
- Second, because financial markets are essentially existent in our economy, banks are typically the most important source of credit for most businesses.
- Third, banks in our country are typically the major custodian for the economy's savings, in addition to providing a widely acknowledged form of payment.

Similarly, Berger et al. (2004) have presented their conclusions that the unique structure of the banking firm, particularly in developing countries such as Ethiopia, necessitates the adoption of corporate governance standards that, in a nutshell, protect both shareholders and depositors.

Despite the importance of these principles for the economic health of firms, the economy, and society in general, the extent to which banks follow or apply them is the least researched field of management (Juran & Loudon, 1966), particularly in developing economies like ours. In general, there is a paucity of literature on the use of corporate governance principles in Ethiopia.

There appears to be a lack of understanding of the necessity of corporate governance standards. Executive management development programs, on the other hand, do not give it the attention it deserves.

The researcher discovered one Ethiopian academic paper on corporate governance. Daniel Berhane Reda created it in 2009 and dubbed it “corporate governance in private banks.” His main finding is that good corporate governance is necessary for banks to perform well. However, his findings did not seek for or pay attention to the application of corporate governance principles or features. As a result, in addition to the research effort mentioned above, I, the researcher, believe that discussing and addressing the extent to which corporate governance principles are followed in Ethiopian private commercial banks (specifically in Dashen Bank) is a worthwhile topic to discuss and address. It is so because, according to Massie (2000), corporate governance is the interaction between the company's participants that is based on particular principles and standards, so determining the amount to which these principles and standards are implemented is an important issue.

Accordingly, this study focuses on the extent to which corporate governance principles are applied in Ethiopian private commercial banks specifically in Dashen Bank.

The following research questions were formulated to be answered as a consequence of the research study, in accordance with the foregoing analysis of the problem:

1. Does the bank have a corporate governance culture?
2. Is the board fulfilling its functions and obligations to the best of its ability?
3. To what extent does the bank assure the board's efficiency and effectiveness?

4. Are shareholders' and other stakeholders' rights protected?
5. To what extent are the board committees fulfilling their obligations and roles?
6. Does the bank disclose material information (such as performance) in a timely manner?

1.3 Objective of the Study

1.3.1 General objectives

The study's main goal is to see how well corporate governance principles are implemented in Ethiopian private commercial banks, specifically in Dashen Bank S.C, in comparison to the principles established by the Organization for Economic Co-operation and Development (OECD) and the Basel Committee on Banking Supervision.

1.3.2 Specific objectives

The specific objectives of the study include:

- To study whether the bank develops a good corporate governance culture.
- To determine how well the board and board committees are fulfilling its roles and obligations.
- To determine the extent to which the bank ensures the board's efficiency and effectiveness.
- To determine if shareholders' and other stakeholders' interests are protected.

- To make sure that the bank is transparent and there is material information disclosure.
- Finally, but certainly not least, analyze the study's findings and give recommendations to the organization's management on how to improve the extent to which corporate governance principles are used.

1.4 Scope of the Study

The study should be conducted on a broad scale, according to the researcher. However, due to a lack of time and other resources, this is not possible. As a result, the research was limited to Dashen Bank. Therefore, the study's conceptual scope was limited to examining the extent to which corporate governance concepts are used in this bank.

1.5 Significance of the Study

As stated previously, the research's main goal is to determine the extent to which corporate governance principles or standards are implemented in an Ethiopian private commercial bank, specifically DASHEN BANK, with the target group consisting of the bank's board of directors, senior managers, and board secretary.

As a result, the article was written by organizing the data acquired from this target group via a questionnaire, an interview, and secondary sources. The survey target group's feedback was

assessed to determine the bank's shortcomings in terms of corporate governance principles execution and to make corrective recommendations.

As a result, the findings gained as a result of doing this research may be relevant in some domains.

- The study's main goal was to make recommendations for the DASHEN BANK's use of corporate governance principles.
- Second, while the recommendations would apply directly to the bank under consideration, they may also be applied indirectly to other private commercial banks in the country.
- Third, the study may provide useful information to market participants and policymakers in our country.
- Finally, the study may be used as a source of information for other researchers conducting research in this field.

1.6 Limitations of the Study

It is well understood that no study is completely free of limitations. As a result, there were several limitations to this research. The researcher was confronted with several issues that could jeopardize the study's quality. Among them were the following:

- The banks' unwillingness to complete the questionnaire.
- The respondents' tardiness in returning the questionnaire.
- Insufficient time to undertake the investigation.

1.7 Organization of the Paper

The research was divided mainly into five Chapters. The study's background, presentation of the problem, aims, significance, delimitation, and limitation were all covered in the first chapter. A review of related literature was included in the second chapter. The third chapter dealt with the study's methodology. The data acquired through questionnaires and interviews were also analyzed and interpreted in Chapter 4. In chapter five, the study's summary, conclusion, and recommendations were presented.

CHAPTER 2 REVIEW OF RELATED LITERATURE

2.1 Theoretical framework

Corporate governance is not a new concept, but it is becoming increasingly prominent in recent years as a result of the rising focus on fighting corruption by corporations and governments in both developing and developed countries.

Over centuries, corporate governance structures have evolved in reaction to business failures and systemic crises. The South Sea Bubble, which altered business laws and practices in England in the 1700s, was the first well-documented failure of governance. In the United States, much of the Securities Law was enacted in the aftermath of the 1929 stock market crash. Other crises, such as the UK's Secondary Banking Crisis in the 1970s and the US Savings and Loan Debacle in the 1980s are part of the crisis arena. The Maxwell Group attack on the pension fund of the Mirror Group of newspapers, the fall of the Bank of Credit and Commerce International, and the failure of Barings Bank may all be found in the history of corporate governance. Each significant business failure — as a result of inefficiency, fraud, and abuse — was met with additional pieces of an action plan for a better corporate governance structure (Magdi and Naderech, 2000).

Since the late 1980s, the relationship between corporate finance structures and corporate governance, as well as the resulting vulnerable economic repercussions, has been studied. Corporate governance principles act as a control mechanism for a company's operations,

encouraging managers to be more effective and to improve the company's performance through long-term initiatives (Claessens, 2006).

As a result of the rapid advances in financial markets, globalization of financial flows, and technological progress over the last two and a half decades, the focus has been on paying attention to the implementation of corporate governance principles in banks. This resulted in increased competition between banks and non-banks, as well as a rapid expansion of the financial markets and a wide range of financial products available to banks. This raised the need of risk measurement, management, and control, which necessitates ongoing innovation in business and risk management methods, as well as changes in legislation and surveillance systems, in order to sustain the banking system's integrity and strength. Because banks differ from other organizations in that their failure affects a broader group of stakeholders, resulting in a weak financial system that has negative consequences for the economy as a whole, the board of directors bear a specific responsibility (Ibid, 2006).

The Bank for International Settlements (2006) defined corporate governance in banks as the methods and approaches used to manage banks through the board of directors and senior management to determine how to put the bank's objectives, operations, and protect the interests of shareholders and stakeholders with a commitment to act in accordance with existing laws and regulations and to achieve the bank's objectives.

There has been a growing global trend and demand for stronger corporate governance procedures, accountability, and responsibility in recent years. However, the phrase "corporate

governance" has come to mean various things to different people. As a result, it has been defined in a variety of ways:

Corporate governance is about adhering to ideals and conducting business in an ethical manner. It has to do with how a business is managed. This encompasses the company's corporate and other structures, as well as its culture, rules, and how it interacts with various stakeholders. The Board of Directors is largely responsible for corporate governance. The Board's responsibilities are carried out with the assistance of management personnel (La Porta, Lopez-de-Silance, and Shleifer 2002)

According to Magdi and Nadereh (2002), corporate governance is concerned with ensuring that the business is well-run and that investors obtain a fair return. The corporate governance structure spells out the rules and methods for making corporate decisions, as well as the distribution of rights and obligations among different players in the organization, such as the board of directors, managers, shareholders, and other stakeholders.

Effective corporate governance minimizes the "control rights" that shareholders and creditors bestow on managers, increasing the likelihood that they engage in initiatives with a positive net present value (Shleifer and Vishny, 1997). According to Al-Faki (2006), the board and management's relationships should be marked by transparency to shareholders and fairness to other stakeholders.

Corporate governance is an important concept that refers to how financial resources available to a company are wisely employed to fulfill the firm's overall corporate objective. It keeps the corporation in business and increases the likelihood of future opportunities. Above all, corporate governance reduces the cost of the agency (Jensen and Meckling, 1976).

According to Rock and et al. (1998), corporate governance is the process through which a board of directors, through management, directs a firm in attaining its corporate objective and safeguarding its assets over time. The board of directors is formed on behalf of the shareholders with the goal of giving supervision and guidance to a company's managers.

Corporate governance, according to Melvin and Hirt (2005), refers to corporate decision-making and control, specifically the form of the board and its working methods. They also point out that the term "corporate governance" is either used very broadly, referring to a company's interactions with a wide range of stakeholders, or very strictly, referring to a company's adherence to best practice code rules.

Furthermore, Thomas (2002) defined corporate governance as the ways and means by which a company's government (the directors) is accountable to its electorate (the shareholders).

Corporate governance can also be defined as a set of rules and procedures that guarantee managers follow the value-based management principles (Brigham and Ehrhardt 2005).

According to Shleifer and Vishny (1997), corporate governance is the process through which financial providers to corporations assure that they will receive a return on their investments.

Corporate governance, on the other hand, is made up of a country's private and public institutions, both formal and informal, that work together to oversee the interaction between those who manage firms (corporate insiders) and those who invest in them (Oman et al. 2003).

To summarize, corporate governance refers to how an organization is run. Corporate governance is a relationship between shareholders (stockholders), the board of directors, and top management in setting the company's direction in order to achieve long-term success. Furthermore, corporate governance is made up of external and internal components that serve the public interest, employee interests, and owner interests. Good corporate governance aims to promote: Corporations that are efficient, effective, and long-lasting, contributing to society's well-being through creating wealth, employment, and providing answers to developing difficulties. Corporations that are responsible and accountable, Legitimate businesses that are run with honesty, openness, and integrity, Rights of stakeholders are recognized and protected, and a strategy focused on democratic ideals, legitimate representation, and participation that is open to all.

2.2 Separation of Ownership and Management (Agency Relationship)

According to Allen and Gale (2001), the concept of corporate governance evolved from the agency dilemma that developed when company ownership and control were split. Because

small enterprises are typically run by their owners, there is less distinction between ownership and managerial control. Owners may not have access to all of the skills required to effectively manage their businesses as they grow in size and complexity. As a result, business owners may hire management consultants. As a result, full-time professional managers are hired to oversee them. The difficulty and growth in size may necessitate outside funding and the surrender of some ownership, or it may necessitate ownership dispersion among organized stockholders who are distanced from the day-to-day operation of the company. In these situations, it is critical to preserve the interests of minority owners.

The responsibility for control changed to the directors (agents) of the firm as the owners (principals) of the company no longer controlled the administration of the company. This situation produced a predicament in which company directors (or managers) could abuse their control function to their personal benefit and to the disadvantage of the owners (Jensen and Meckling 1976).

To put it another way, according to Jensen and Meckling (1976), the separation of ownership and control leads to the so-called agency dilemma, in which management manages the firm in their own interests rather than the interests of shareholders. This allows managers to focus their firm's resources on maximizing their own utilities rather than the utilities of the owners. As a result, corporate governance was established to ensure that the agents of the company's owners exercise control over the organization in ways that benefit the company's shareholders.

2.3 The interest of corporate governance in banks

The importance of corporate governance has been highlighted by recent company failures around the world. Investors must identify companies based on governance principles in order to distinguish the excellent from the bad. Corporate governance, to put it bluntly, is a necessity of the hour. Its main role is to improve the firm's operating performance as well as to avoid fraud (Yeh, Lee, and Ko, 2002). According to these authors, there is a global consensus that the goal of good corporate governance is to maximize shareholder value.

Companies with superior corporate governance outperform those with poor corporate governance, according to Black, Jang, and Kan (2007). Furthermore, Jensen and Meckling (1976) and Fama and Jensen (1983) discovered that good corporate governance aids owners in exerting control over their businesses.

Furthermore, according to Labie (2003) (as cited by Frezer, 2006), corporate governance concepts have gotten greater attention from academics and practitioners in the banking profession in recent years, particularly when it comes to long-term sustainability and institutionalization. This pattern can be attributed to a number of factors.

1. The banking industry has had a number of serious failures, one of which is the lack of adequate corporate governance.

2. Some banks' phenomenal expansion and institutionalization process has created an intriguing topic for further research focused at enhancing internal control mechanisms, particularly those related to board decisions.

3. The creation of mutual funds as part of the shareholder structure and/or to connect banking institutions to capital markets has also played a significant impact.

The banking industry's relevance in institutionalizing and maintaining corporate governance may be seen in the nature of the business itself. According to Shleifer and Vishny (1997), banks are critical organizations in any economy since they are a major source of financing for enterprises. Furthermore, the Basel Committee on Banking Supervision (2006) emphasizes the importance of bank corporate governance, stating that weak corporate governance can lead to bank failures, jeopardizing the financial system's stability. As a result, banks are regulated.

Berger et al. (2006), on the other hand, believe that because financial organizations, particularly banks, handle other people's money, their boards have a specific responsibility to preserve the value of these assets.

Thus, the governance bodies may only perform their tasks as stipulated in legislation and ensure that the organization safeguards these resources by institutionalizing and implementing corporate governance.

2.4 Why bank corporate governance is different?

The banking and financial industry, according to Visentini (1997), is easily distinguished from the others. Here are a some of the distinguishing characteristics:

- Unlike other businesses, which are primarily supported by their shareholders, banks rely heavily on deposits to fund their operations. Because depositors' funds must be safeguarded in a specific way, the activity of soliciting public deposits involves increased fiduciary responsibility on the institution and its administrators.
- Banks act as financial mediators, lending and investing monies raised and funding other people's economic activity.
- Banks are the payment system's agents, facilitating local and international payments using a variety of instruments such as bank accounts, wire transfers, credit cards, and so on.
- Banks are able to conduct all of these business operations as a result of public confidence in the banks' and the system's overall stability and soundness. The history of bank failures in many nations suggests that a loss of public confidence in banks might easily spread, leading to systemic banking crises.

Overall, the banking industry is critical to a country's monetary situation. The supply, cost, and availability of money are determined by the deposit and lending activity of banks. The banking system creates money through issuing legal currency issued by central banks and/or monetary authorities. Because created sight money is payable by banks at any moment through legal currency, the banking system does not have the liquidity to meet all such created money at any

given time. As a result, the banking industry places a significant burden on monetary authorities to facilitate, regulate, and defend the banking and payment systems (Mishkin, 1992).

Bank corporate governance is critical because inadequate corporate governance can lead to bank collapses, jeopardizing the financial system's stability. Furthermore, inadequate corporate governance may result in a loss of market trust in a bank's capacity to manage its assets, potentially triggering bank runs or liquidity crises (Basel Committee on Banking Supervision, 2006). As a result, banks are regulated. In a more direct sense, bank CG arrangements weaken their ability to identify, monitor, and manage business risk, which can lead to poor lending quality and excessive risk-taking by financial institutions. These risks have the potential to spread across the financial system, depending on the resilience of financial institutions and markets.

2.5 Overview of the Corporate Governance Theories

2.5.1 Fundamental Corporate Governance Theories

2.5.1.1 Agency Theory

Alchian and Demsetz (1972) expounded agency theory, which has its roots in economic theory, and Jensen and Meckling (1972) extended it further (1976). The relationship between the principals, such as shareholders and agents, is defined as agency theory. According to this notion, the agents are hired by the shareholders, who are the company's owners or principals. The directors or managers, who are the shareholders' agents, transfer the management of the company to the principals (Clarke, 2004). Shareholders in the agency theory expect agents to act and make

decisions in the principal's best interests. On the contrary, the agent's judgments may not always be in the best interests of the principals (Padilla, 2000).

2.5.1.2 Stewardship Theory

Davis, Schoorman, and Donaldson (1997) define stewardship theory as “a steward preserves and maximizes shareholders wealth through business performance, because doing so maximizes the steward's utility functions.” Stewards, in this context, are firm executives and managers who work for the shareholders to protect and maximize earnings. Unlike agency theory, stewardship theory emphasizes the role of senior management as stewards, integrating their aims as part of the company, rather than individuality (Donaldson & Davis, 1991). When an organization achieves success, stewards are satisfied and driven, according to the stewardship perspective. According to Agyris (1973), agency theory views an employee or a person as an economic being, suppressing an individual's own desires. Stewardship theory, on the other hand, recognizes the significance of systems that empower the steward and provide maximum autonomy based on trust.

2.5.1.3 Stakeholder Theory

“Any group or individual who can affect or is affected by the achievement of the organization's objectives,” according to stakeholder theory. Unlike agency theory, which suggests

that managers in organizations have a network of relationships to serve, such as suppliers, employees, and business partners, stakeholder theory suggests that managers in organizations have a network of relationships to serve (Freeman, 1984).

2.5.1.4 Resource Dependency Theory

“Any group or individual who can affect or is affected by the attainment of the organization's objectives” is what stakeholder theory is defined as. Stakeholder theorists argue that managers in enterprises have a network of relationships to serve, which includes suppliers, employees, and business partners, in contrast to agency theory, which suggests that managers work and serve for the stakeholders (Freeman, 1984).

2.5.1.5 Transaction Cost Theory

Cyert and March (1963) were the first to propose transaction cost theory, which was later developed and revealed by Williamson (1996). The multidisciplinary alliance of law, economics, and organizations created Transaction Cost Theory. This idea aims to understand the firm as a group of people with diverse perspectives and goals. The underlying assumption of transaction theory is that corporations have grown so large that they have essentially replaced the market in determining resource allocation.

2.5.1.6 Political Theory

Rather of acquiring voting power, political theory proposes that shareholders create voting support. As a result, having political clout in corporate governance may influence corporate governance within the company. As the government participates in business decision-making while taking cultural barriers into account, public interest is heavily weighed (Pound, 1993).

2.5.2 Ethics Theories of Corporate Governance

Other ethical theories can be intimately related with corporate governance, in addition to the essential corporate governance theories of agency theory, stewardship theory, stakeholder theory, resource dependency theory, transaction cost theory, and political theory. Business ethics theory, virtue ethics theory, feminist ethics theory, discourse ethics theory, and postmodern ethics theory are examples of these theories.

2.5.2.1 Business ethics theory

The study of business operations, decisions, and circumstances in which the right and wrong are addressed is known as business ethics. The key reasons for this are that business's power and influence in any given society is greater than it has ever been. In terms of jobs, products, and services, businesses have become a big contributor to society. The impact of business failure on

society is greater than ever before, and the demands imposed on the firm by its stakeholders are increasingly complex and difficult to meet. Business ethics is significant because it sheds new light on current and conventional views of ethics. It also helps us discover benefits and challenges linked with ethical dilemmas within the enterprise (Crane and Matten, 2007).

2.5.2.2 Feminist ethics theory

Empathy, healthy social relationships, loving care for one another, and avoiding harm are all emphasized in this theory. In an organization, caring for one another is a social concern rather than a profit-driven goal. Because an organization is a network of behaviors, it has an impact on trans community levels and interactions (Casey, 2006).

2.5.2.3 Discourse ethics theory

This idea is concerned with conflict resolution through peaceful means. Discourse ethics, often known as argumentation ethics, is a sort of argument that attempts to establish ethical facts by probing discourse's presuppositions (Habermas, 1996). According to Meisenbach (2006), such a village would help to establish cultural rationality and nurture openness.

2.5.2.4 Virtue ethics theory

Moral perfection, goodness, chastity, and excellent character are the center of this theory. Virtue is a state of mind in which one acts in a specific scenario. It isn't a habit in the sense that a habit might be mindless (Annas, 2003). It's referred to as disposition with option or decision by Aristotle. The affective and intellectual sides of virtue are intertwined. In virtue theory, the affective idea means "performing the right thing while having happy sentiments," and the intellectual definition means "doing the right thing for the right reason."

2.6 Review of related literature on corporate governance

In the domain of corporate governance, the researcher attempted to review some empirical and theoretical literature.

According to a study conducted in South Africa, there are three major areas that have an impact on corporate governance. These include African political and legal governance, payment transparency regulations, and the necessity for an effective and sound regulatory environment (Okeahalam, 2004). Despite the fact that ownership is now more widely distributed, control of enterprises that account for a significant amount of the capitalization remains concentrated in the hands of a few founding families (Okeahalam, 2004).

According to McKinsey (2000), a large majority of investors are willing to pay a premium for a well-run company. A well-governed company, according to the survey, is one that has a

majority of outside directors who are truly independent of management ties, have significant shareholdings, are very responsive to investor requests, have a formal director evaluation system in place, and where a significant portion of directors' pay is stock-related.

Bahraini enterprises have some of the hallmarks of international corporate governance "best practice," according to another study. Boards, for example, are dominated by non-executive directors, and the positions of Chairperson and CEO are separated, but there is still room for improvement (Hussain & Mallin, 2002).

2.7 Introducing Corporate Governance in Ethiopia

Ethiopia's economy is undergoing a transition. Market economy, privatization of state-owned firms, and financial system liberalization were all brought about by reforms in the recent two decades. Economic progress has entered a new phase, as evidenced by recent events. Exports have increased significantly. The financial system is shifting away from exclusively collateral-based lending and toward performance-based financing of firms. Over the last few years, ambitious investors have been observed raising enormous sums of money from the general public by selling shares in new businesses. All these indicate the emergence of new types of relations between and among businesses, investors, suppliers, and customers.

As a result, these new trends and changes in the Ethiopian economy and business environment would necessitate significant adjustments in the country's business practices. In its

broadest sense, good corporate governance will be critical. It would be impossible to establish vital new relationships between enterprises, investors, financiers, and international customers without it, and economic growth would be slowed.

Ethiopian businesses would benefit from corporate governance in a variety of ways. By making firm performance public and predictable, it would make capital available through the banking system and other financial institutions. Corporate Governance may cut capital costs by reducing the "risk premium" that creditors generally pay to borrowing through more transparency and better corporate conduct. The application of good standards or principles to a company's affairs improves the control and efficiency of commercial transactions. To put it another way, excellent corporate governance leads to successful business.

Thus, the introduction and growth of Corporate Governance in Ethiopia is a necessary but "revolutionary" change in Ethiopian company ownership philosophies, management, and operations. It would aid in the removal of financial and market access barriers while also imposing far-reaching obligations for enterprises to revise their business operations in order to achieve growth and prosperity for their owners and stakeholders.

2.8 Review of International Corporate Governance Principles

Because of the inherent potential conflicts between diverse stakeholders in a corporate organization, there is an immediate need for good corporate governance. This is known as the

principal–agent dilemma, with the most obvious example being a potential misalignment of interests between a company's ownership (principal) and management (agent). Corporate governance strives to reduce the likelihood of disputes by increasing the transparency of decision-making processes and increasing management accountability through the use of various control measures (e.g. audit committee, board of directors, shareholder meetings). For the most efficient distribution of capital, a robust corporate governance framework is required. A framework like this creates market confidence, attracts long-term investments, and supports market discipline by increasing disclosure and openness (Shleifer and Vishny, 1997).

Since the 1980s, corporate governance principles have been undergoing a transformation. Since the late 1980s, the relationship between corporate finance structures and corporate governance, as well as the resulting vulnerable economic repercussions, has been studied. Corporate governance rules are organizations that protect shareholders' rights while reducing information asymmetry. The principles, as institutions, are the game's rules, or, to put it another way, they impose limits on how actors interact. They reduce degrees of freedom of action while lowering levels of uncertainty and insecurity (Claessens, 2006).

Corporate governance standards "are evolutionary in character and should be reassessed in light of significant changes in circumstances," according to the authors. "To stay competitive in a changing environment, organizations must innovate and adapt their corporate governance procedures so that they can meet new demands and seize new opportunities," it is also acknowledged (OECD, 2005).

2.8.1 OECD Principles of Corporate Governance

The OECD Principles of Corporate Governance were accepted by OECD Ministers in 1999 and have since established a global standard for governments, investors, firms, and other stakeholders. In 2002, the OECD Council Meeting at Ministerial Level agreed to examine developments in OECD nations and assess the principles in light of corporate governance changes. As a result, the 1999 Principles of Corporate Governance were amended in 2004 to reflect new developments and concerns. The revision was agreed to be undertaken with the goal of retaining a non-binding principles-based approach that recognizes the need to adapt implementation to changing legal, economic, and cultural circumstances (OECD, 2004).

The following are the OECD Principles of Corporate Governance:

1. The corporate governance structure should encourage open and efficient markets, adhere to the rule of law, and clearly define the roles and duties of various supervisory, regulatory, and enforcement bodies.
2. Shareholder rights should be protected and made easier to exercise through the corporate governance structure.
3. All shareholders, including minority and foreign owners, should be treated equally within the corporate governance framework. All shareholders should be able to seek appropriate recourse when their rights are violated.

4. The corporate governance framework should respect stakeholders' rights, which are defined by law or mutual agreement, and encourage active collaboration between firms and stakeholders in the creation of wealth, jobs, and the long-term viability of financially sound businesses.
5. The corporate governance structure should ensure that all material information about the firm, such as its financial status, performance, ownership, and governance, is disclosed in a timely and correct manner.
6. The corporate governance structure should ensure that the firm's strategy is well-guided, that the board effectively monitors management, and that the board is accountable to the company and its shareholders (OECD, 2004).

2.8.2 Basel Committee on Banking Supervision

In 1999, the Basel Committee on Banking Supervision (the Basel Committee) issued recommendations to help banking supervisors in encouraging banking businesses in their countries to adopt solid corporate governance standards. This advice was based on the OECD's Principles of Corporate Governance, which were released earlier that year with the goal of supporting governments in evaluating and improving their corporate governance frameworks, as well as providing assistance to financial market authorities and participants.

The Basel Committee updated its 1999 Corporate Governance recommendations in 2005 and issued a consultation document titled Enhancing Corporate Governance for Banking Organizations.

The following are the principles put forward in that document:

- Principle 1: Board members should be qualified for their positions, have a clear understanding of their role in Corporate Governance and be able to exercise sound judgment about the affairs of the bank.
- Principle 2: The board of directors should approve and oversee the bank's strategic objectives and corporate values that are communicated throughout the banking organization.
- Principle 3: The board of directors should set and enforce clear lines of responsibility and accountability through the organization.
- Principle 4: The board should ensure that there is appropriate oversight by senior management consistent with board policy.
- Principle 5: The board and senior management should effectively utilize the work conducted by the internal audit function, external auditors, and internal control functions.
- Principle 6: The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives and strategy, and control environment.
- Principle 7: The bank should be governed in a transparent manner.

- Principle 8: The board and senior management should understand the bank’s operational structure, including where the bank operates in jurisdictions, those that may impede transparency (i.e. “know-your-structure”).

Today, more than ever, it is obvious that regulators play an important role in ensuring effective corporate governance. In general, all banking laws are designed to impose prudential requirements on important aspects of an institution's business in order to manage identified risks in one way or another. Modern Corporate Governance principles are directly applied to ownership, related party transactions, and fitness and propriety requirements for directors (the Basel Committee on Banking Supervision, 2005).

The Basel Committee further recommends that Corporate Governance should be promoted by other stakeholders as well. For instance,

- Shareholders – by exercising their rights as shareholders in a proactive and informed manner.
- Depositors and other customers – by refusing to do business with banks that operate in an unsound manner.
- Auditors — provide audit standards and communications to boards of directors, senior management, and supervisors through a well-established and credentialed audit profession.
- Banking industry associations - through voluntary industry norms, as well as agreement on and dissemination of sound practices.

- Professional risk advice firms and consultancies - by aiding banks in putting in place good Corporate Governance standards.
- Governments – through rules, regulations, and enforcement, as well as a strong judicial system.
- Credit rating agencies - by examining and evaluating the influence of corporate governance policies on a bank's risk profile.
- Employees – through expression of concerns about illegal or unethical actions or other Corporate Governance issues; and
- Securities regulators, stock exchanges, and other self-regulatory bodies – through disclosure and listing requirements.

2.9 Applicability of the Principles of Corporate Governance

Corporate governance principles provide a control system for a company's operations, encouraging managers to be more effective and promote the company's performance through long-term strategies.

The OECD Principles and the Basel Committee on Banking Supervision establish a minimal norm on which countries of various traditions can agree without being overly prescriptive. They are intended to be equally applicable to all countries, regardless of ownership structures, legal traditions (civil or common), or board representation models.

Dispersed ownership structures are the exception rather than the rule in a global context. Whether the corporations are family-controlled, state-owned, or cross-shareholding financial-industrial organizations, each arrangement produces various agency problems and, as a result, different corporate governance concerns. Disparities in legal traditions, particularly between nations with common law and countries with civil law traditions, are another source of differences in corporate governance ideas. Finally, cultural differences (<http://en.wikipedia.org>) play a significant impact. As a result, the OECD and the Basel Committee on Banking Supervision acknowledge that "the principles are non-binding and do not seek to prescribe detailed national legislation." Rather, they try to figure out what the objectives are and how to get there. Their function is to act as a point of reference." Furthermore, the OECD Principles expressly declare that the "ideal combination of legislation, regulation, self-regulation, voluntary norms, and other factors in this area will differ per country."

2.10 Relevant Laws and Directives on Corporate Governance in Ethiopia

Ethiopia's government has developed legislation to manage the country's bank corporate governance. Furthermore, the following rules and directives can be addressed here for this research sake.

2.10.1 Commercial Code of Ethiopia 1960

The Ethiopian Commercial Code (1960) contains significant corporate governance provisions. Articles 304-428, which deal with share companies, spell out the shares, rights, and responsibilities of shareholders, directors, auditors, and shareholder meetings. The following is a possible summary of the provision:

Shares and rights and duties of share holders (Art.325)

Shares shall be registered in the name of the share holder where the bearer shares are prohibited by law, the memorandum or articles of association

Register of share holders (Art.331) - Every company shall keep at its head office a register of share holders, the register shall contain the names and address of the share holders, the number and numeration of shares, the amount paid up and the date of entry of the share holder in the register. The register may be inspected by any share holder without charge, it may also be inspected any other person up on payment of the prescribed amount.

Classes of shares (Art.335) - All share of the same class shall have the same par value and the same right.

Preference of shares (Art.336) -The issue of shares with a preference as to voting right is prohibited.

Rights arising out of shares (Art.345) - Every share shall confer a right to participation in the annual net profits and to a share in the net proceed on the winding- up, and to allotment of cash shares issued on an increase of capital.

Directors, Auditors and share holders' meetings

Directors (Art.347) - Only members of a company may manage the company. A company shall have not less than three or more than twelve directors who shall form a board of directors.

Appointment of directors (Art.351) - The first directors may be appointed under a memorandum of association and submitted to the meeting of subscribers for confirmation. Subsequent directors shall be appointed by a general meeting. Directors may not be appointed for more than three years.

Rights of a minority (Art.352) - Where there are several groups of share holders with a different legal status, the articles of association shall provide for each group to elect at least one representative on the board of directors.

Remuneration (Art.353) - Directors may receive fixed annual remunerations, or share in the net profit (not exceeding 10 %.) the amount of which shall be determined by a general meeting and charged against general expenses.

Removal (Art354) - Notwithstanding any provision to the contrary, directors may be removed at any time by a general meeting, provided that a director who was removed without good cause may claim compensation.

Decisions of board of directors (Art.358) - No decision may be taken by the board of directors unless a majority of directors is present.

Powers of directors (Art.363) - The directors shall have such powers as are given to them by law, the memorandum or articles of association and resolutions passed at meetings of share holders.

Nomination and Appointment of Auditors (Atr368 &369) - Auditors shall be elected by the meeting of subscribers and thereafter by the annual general meeting.)

Persons Not competent (Art370) - Auditors may not be appointed directors or managers of the company which they audit, nor one of its subsidiaries or its holding company within three years from the date of the termination of their functions.

2.10.2 The Banking Business Proclamation No. 592/2008

As per the Art.10 of the proclamation, bank share shall be of one class and shall be registered as ordinary shares of the same par value. It also proclaims that every bank shall keep register of shares as determined by the NBE which shall show the names and voting right of share holders. Any transfer of shares that makes any person influential share holder shall be approved by the NBE before such transfer is recorded in the register of shares.

Article12 authorizes NBE to assign observers to attend any general share holders' meeting, and where it finds necessary to call general share holders meetings of the bank.

According to Art14, a Director shall be of a person with honesty, integrity, diligence and reputation to the satisfaction of NBE. The appointment of any director, CEO, senior executive officer of a bank may not be valid unless a written approval is granted by NBE. The NBE may issue directives on qualification of competency, minimum number of directors, duties, responsibilities and good corporate governance of the bank, the maximum number of years a director may serve and condition for his re-election, and maximum number the employees that may serve on the board.

As per Art.15 persons convicted of any offence involving breach of trust or fraud is prohibited from getting appointed as directors and officers.

CHAPTER 3 RESEARCH DESIGN AND METHODOLOGY

The procedures utilized to conduct the research are described in this chapter. This research was used to describe the extent to which corporate governance concepts are implemented in Ethiopian private commercial banks, specifically DASHEN BANK. It covers the research design, data collection techniques, instruments used to acquire the essential data, sample procedures, and data analysis and presentation methods.

3.1 Research Design

The research design employed in each study may differ. Because the researcher has no control or impact on the study's variables, the type of research used for this study is descriptive. It was only meant to look at how well corporate governance concepts are applied in Ethiopian private commercial banks, specifically DASHEN BANK.

When a researcher wishes to look at a phenomena or a process in its natural surroundings in order to gain an overall picture of it rather than changing one or more of its elements in a simulated or artificial environment, a descriptive study is useful (Seiliger and Shohamy 1989; McDonough 1997). As a result, a descriptive research was chosen to explore the extent to which corporate governance concepts are being implemented in banks from a holistic viewpoint in their natural contexts. Furthermore, both quantitative and qualitative approaches were used to attain the targeted goal.

Hence, the descriptive case study was chosen as the most practical research strategy for this study.

3.2 Sources of Data and Sampling Techniques

3.2.1 Source of data

The data was gathered from both primary and secondary sources. The DASHEN BANK's board members and top managers, as well as the board secretary, were the study's target populations.

3.2.2 Sampling Population

Based on the information found from the National Bank of Ethiopia, there were a total of 9 board members for the DASHEN BANK. All of them were taken as a target population for the purpose of this study. And the other target population of the study was the bank's senior manager and the board secretary. In other ways, a population census was used to make the research. In a nutshell, a total of 18 participants, the board members and the senior manager and the board secretary were involved in the study.

Finally, the kind of sampling techniques used for the selection of the participants so as to conduct this research was comprehensive and purposive sampling for the questionnaire and interview respectively.

3.3 Development of Research Instruments and Data Collection Procedures

A triangulated set of data collecting procedures and instruments were used to make the study output comprehensive. The information was gathered from both primary (including questionnaires and interviews) and secondary sources. The employment of several instruments for a study, as suggested by Moser and Kalton (1972), is a strong research method. A detailed questionnaire was created and delivered to all board members of the target bank as part of the primary data (a copy was included as appendix A at the end of the report). In addition, comprehensive information was obtained through interviews with five board members, the senior manager, and the board secretary.

Publicly accessible information such as the bank's annual report, Ethiopia's commercial law, and proclamations and directives made by the National Bank of Ethiopia to control and monitor the bank's governance will be accessed as secondary data. In addition, the internet was used to search for literature on the issue.

3.3.1 Questionnaire

A questionnaire is a research tool that consists of a sequence of questions and other prompts used to collect data from respondents⁴. Questionnaires offer advantages over other forms of

surveys in that they are less expensive, involve less work from respondents, and frequently include standardized responses that make data compilation easier.

3.3.1.1 Design of the questionnaire

Most of the questions in the survey were derived from a review of related literature by the researcher. Therefore, the questionnaire was prepared, completed and returned to the researcher. The questionnaire was divided into two sections. The first section dealt with the respondents' personal information.

The second section of the questionnaire consisted of questions regarding corporate governance principles. This was then subdivided into five sections. The first sub-section deals with developing a corporate governance culture within the bank. This sub-section included a total of 5 items, all of which were 'Yes' or 'No' questions.

The second section of the questionnaire contained six items which were designed for the purpose of looking into the extent to which the board is carrying out its roles and responsibilities. A Likert scale was used to rate each of these items. The Likert scales were as follows: 'Strongly disagree', 'Disagree', 'Un decided', 'Agree' and 'Strongly agree'. As a result, respondents were asked to use the scales to indicate whether they agreed or disagreed with the statements. The third sub-part consisted of five criteria aimed at determining how well the bank ensures the board's efficiency and effectiveness. All of them were 'Yes' 'No' questions.

The rights of shareholders and other stakeholders, as well as the duties and obligations of the bank's board committees, were addressed in the fourth and fifth sub-parts, respectively. Each sub-part included 5 and 10 entries, respectively. All of the items were assessed using the Likert scales, which are 'strongly disagree,' 'disagree,' 'undecided,' 'agree,' and 'strongly agree.' The final sub-section dealt with transparency and disclosure and had five items, all of which were simple yes/no questions.

The following pictures show the conceptual map for the questionnaire design.



Figure 1: Conceptual map for questionnaire design

3.3.2 Interview

Interview was the other type of data collection instrument used in the study. This means of data collection instrument helps the researcher to get reliable information from the target population that how they feel and think about the problem. Interview according to Arikunto (2002) is a kind of dialogue which is done by an interviewer to get reliable information from an interviewee.

As a consequence, the objective of the interview was to substantiate the answers received from the questionnaire in order to get more information. The questions for the interview were written in a semi-structured form. A total of 15 questions were developed based on the related literature review by the researcher and presented to the bank's five board members, senior management, and board secretary.

3.4 Data Collection Procedure

In order to acquire data for the study, the researcher used three methods. To begin, the appropriate literature was reviewed in order to obtain sufficient knowledge on the subject. Second, to indicate the study's direction, objectives and research questions were created. For this sake concept map was developed and reviewed. The third step was to build and test data collection technologies. The interview with the bank's top management took place after the questionnaire was circulated and collected.

3.5 Method of Data Analysis and Presentation

Quantitative and qualitative data analysis approaches were employed when the raw data was available. A descriptive statistical analysis technique and SPSS were used to tabulate the data and show it in tables, especially for the quantitative data acquired via the questionnaire. The data acquired from the open-ended questions was examined and combined with the data gathered from the closed-ended questions to triangulate the responses gathered from the questionnaire in general. Furthermore, a qualitative data analysis approach was used to evaluate the data collected through interviews. Perhaps the information collected using this approach was used to back up the information gathered through the research's main instrument, the questionnaire, and hence no separate section was given to it.

3.6 Ethical Consideration

Before conducting the study on the chosen bank, the researcher informed the participants of the study's objectives and consciously considered ethical issues in obtaining consent, avoiding deception, maintaining confidentiality, respecting the privacy of all respondents, and protecting their anonymity. Because the legislation of research ethics forbids conducting a study without the consent of the respondents for the reasons stated above, a researcher is expected to examine these factors.

CHAPTER 4 PRESENTATION AND DISCUSSION OF THE DATA

4.1 Introduction

As stated in earlier chapters, the purpose of this study was to determine the extent to which corporate governance concepts are applied in Ethiopian private commercial banks, specifically in Dashen Bank S.C. The data was collected from the bank's board of directors, top management, and board secretary. Questionnaire and interview data tools were used to collect pertinent data for the study's objective. As a result, this chapter presents and discusses the data obtained from the study's target population using these instruments.

The obtained data were discussed, evaluated, and presented in this part. As a result, the information obtained through the questionnaire was organized into tables. Aside from that, the information gathered through interviews was combined with the results of the questionnaire and analyzed.

This chapter generally consists of a presentation of the statistical data, graphical tables, and reflections on the questionnaire and target population interview results.

4.2 Data obtained through questionnaire and interview.

The board members were given a closed-ended questionnaire with open-ended questions consisting of 37 items which is prepared in English language. Consequently, they responded to the extent to which corporate governance concepts are being implemented in Ethiopian private commercial banks, namely DASHEN BANK. As a result, the information gathered from the respondents was evaluated and discussed in line with the study questions. The researcher also utilized the interview method of data collection to triangulate with the results of the questionnaire data and, finally, to confirm the results' reliability. When the questionnaire data was examined, the interview data was also discussed and interpreted alongside the questionnaire results. In general, the results from the questionnaire were examined and interpreted in conjunction with the data from the interview, as shown in the subsequent tables.

4.3 Presentation and Analysis of data obtained through questionnaire and interview.

4.3.1 Personal information

Table 4.3.1-1 Age group

Age	Frequency	Percentage
30 to 45	1	11.11
46 to 60	5	55.56

60 or older	3	33.33
Total	9	100

Table 1 shows that 11.11 percent, 55.56 percent, and 33.33 percent of those polled were between the ages of 30 and 45, 46 to 60, and 60 or older, respectively. The outcome is in line with the National Bank of Ethiopia's new directive on the Banking Business Proclamation 592/2008, which states that a member of a bank's board of directors must be at least 30 years old.

Table 4.3.1-2 Level of educational qualification

Qualification	Frequency	Percentage
Diploma	1	11.11
Degree	3	33.33
Master	5	55.54
PHD	-	-
Total	9	100

Table 3 shows that 88.87 percent of the respondents had a bachelor's degree or higher, indicating that the Bank is run by educated individuals. It complies with a 2008 guideline from the National Bank that requires at least 75 percent of a bank's board members to have a first degree or equivalent from a recognized higher learning institution. The remaining members of the board should have finished at least general secondary school.

The interview findings also indicate that the National Bank's preceding criteria resulted in the selection of directors with strong academic preparation and experience. Management and Board members have a better understanding of each other. Furthermore, the directors' professional backgrounds are broad and pertinent, with business management, finance, information technology, and engineering graduates among them.

Table 4.3.1-3 Work experience

Years	Frequency	Percentage
11 to 20	2	22.2
21 to 30	4	44.4
31 and above	3	33.3
Total	9	100

When serving on a board, members must have enough managerial experience, ideally in banking, and/or complete adequate training in banking business management, according to a directive issued by the National Bank of Ethiopia. As can be seen in table 4, the respondents had at least 11 years of professional job experience. This allows the directors to understand their position in corporate governance, which is one of the most important aspects of corporate governance (Basel, 2005). This shows that the Board, on the whole, is well-versed on the duties, powers, and liabilities of directors.

4.3.2 About the corporate governance principles

Table 4.3.2-1 Frequency and Percentage Values of developing a culture of good governance throughout the bank.

Criteria	Yes		No	
	F	%	F	%
1. Internal controls and procedures	8	88.9	1	11.1
2. Code of business ethics	8	88.9	1	11.1
3. Corporate governance committee	9	100		
4. Compliance department	7	77.8	2	22.2
5. Employee awareness creation program	6	66.7	3	33.3

► ‘F’ stands for frequency and ‘%’ stands for valid percentage value

As shown from table 4.3.2.1 different criteria that can be used to evaluate the development of a culture of corporate governance were listed and the respondents were asked whether or not they are practically used in the bank. As a result, the frequency distribution and percentage value of each criteria's use are presented below.

The first requirement is to create internal controls and processes, as stated in the table above. A corporation should have an effective system of internal controls, according to Melvin and Hirt (2005), that provides reasonable certainty that the corporation's books and records are correct, that its assets are secured, and that it conforms with relevant laws. Internal control systems help to protect the company's assets, improve the efficiency and effectiveness of business transactions, ensure the accuracy of financial data, and ensure compliance with laws and

regulations. The internal controls system should be periodically evaluated and updated so that it continues to be effective in a changing environment.

At this regard, according to the study, 88.9% of respondents responded 'Yes,' implying that this criterion is applied in the bank to regulate the work and conduct of its divisions. The remaining 11.1 percent of all respondents, on the other side, said "No." That is, the vast majority of respondents said the bank has internal controls and procedures in place. However, the 'No' response should not be discarded as they can high light the problem in the bank. Furthermore, the secondary data analysis (from the annual report) revealed that the bank had internal controls and processes in place.

Banking institutions should have a documented code of business conduct with efficient reporting and enforcement procedures, according to the Basel Committee on Banking Supervision (2005). Employees should be able to report suspected wrongdoing to management and the board of directors without fear of retaliation, and breaches of the code should be dealt with quickly and efficiently. It should also be made available on the organization's website.

According to the above table, almost all (88.9%) of the total respondents answered 'Yes' to criteria number 2, 'existence of Code of Business Ethics,' in contrast to the remaining 11.1 percent, which should not be ignored, of the respondents who said 'No.' However, in the open-ended question section, respondents were asked whether the bank's Code of Business Ethics, if any, is available on its website, and they responded that it is not yet published.

The third requirement in the table is "creating a corporate governance committee." As can be seen from the table, all the respondents agreed that the board should establish a corporate governance committee whose role includes evaluating whether the bank is adhering to its good governance obligations. As a result of the given facts, it is feasible to conclude that the bank employed one of the several criteria listed above to establish a culture of good governance: the creation of a corporate governance committee.

Similarly, having a formal 'Compliance Department' criterion number 4 is answered by 77.8% of the total responses among the criteria provided in the same table. The outcome indicates that the bank has an official 'Compliance Department,' with a 'Yes' response. Only 22.2 percent of respondents answered "No," indicating that this criterion is not used. In addition to the information collected from the questionnaire, the interview showed that the bank had a formal Compliance Department.

Any firm that has a compliance department should be promoted since it gives investors and other stakeholders more access to information about the company. Where a local corporate governance code exists, businesses should adopt a "comply or explain" rule, in which they reveal how closely they followed the local code's guidelines and explain any discrepancies. Companies should adopt known worldwide good practices if there is no local corporate governance code. In relation to this "comply or explain" rule, some countries now require companies with foreign listings to disclose the extent to which the local governance practices differ from the foreign listing standards.

The majority of respondents (66.7 percent) said the bank had criterion number 5, which is an ongoing effort to improve staff knowledge. The other 33.3 percent of respondents, on the other hand, said that this criterion is not used. In addition to the results of the questionnaire, the interview indicated that this criterion has been implemented in the bank so far.

According to the Basel Committee on Banking Supervision, when a company treats its workers well, serves its customers well, has excellent connections with suppliers, and has a reputation for social duty and legal compliance, shareholder value increases. As a result, businesses should do all possible to raise employee knowledge of corporate governance.

Table 4.3.2-2 Frequency and Percentage Values of roles and responsibilities of the board

Criteria	1		2		3		4		5	
	F	%	F	%	F	%	F	%	F	%
1. Approves a set of performance Indicators					1	11.1	2	22.2	6	66.7
2. Approves and monitors strategic objectives of the bank			1	11.1	1	11.1	4	44.4	3	33.3
3. Ensures that the executive management implements the Strategic policies of the bank			2	22.2			5	55.6	1	11.1
4. Has a sound understanding of risks of the bank					3	33.3	5	55.6	1	11.1
5. Conducts annual meetings in a way that shareholders are able easily ask questions					1	11.1	6	66.7	2	22.2
6. Provides to all its shareholders to all its shareholders sufficient and timely information					1	11.1	3	33.3	5	55.6

► 'F' stands for frequency and '%' stands for valid percentage value

As indicated in table 4.3.2.2, many criteria pertaining to the board's tasks and responsibilities were defined, and respondents were asked to express their degree of agreement. This may indicate the extent to which the bank's board of directors is fulfilling their roles and responsibilities.

As seen in the table above, criteria number 1 outlines 'the board responsibility to officially approve a set of key performance indicators, which can be used to measure the bank's progress and the performance of the management team.' With this in mind, criteria number 1 in the table shows that 11.1 percent, 22.2 percent, and 66.7 percent of respondents, respectively, responded as undecided, agree, and strongly agree. This criterion is therefore revealed by majority of the respondents as it has been carried out by the board, they show their agreement.

Where executive directors and key staff are eligible for performance-related incentives, their pay should be subject to meaningful and objective requirements that will help the companies long term corporate value. The Board of Directors should identify important risk areas and key performance indicators for the corporation's operations, such as economic value added, and should periodically monitor them (OECD 2005).

In response to criteria number 2 in the table above, which reads, "the board approves and monitors strategic objectives of the bank and the values and standards of work with the interests of stakeholders" Strongly disagree, disagree, agree, and strongly agree were expressed by 11.1 percent, 11.1 percent, 44.4 percent, and 33.3 percent of total responses, respectively. As can be seen from the table, the majority of respondents said the board did its duty.

It is difficult to manage an organization's activities when there are no strategic objectives or guiding corporate principles, according to the Basel Committee on Banking Supervision (2004). As a result, the board should create strategic objectives and ethical standards that will guide the bank's continuous operations while also considering the interests of stakeholders.

The third criterion indicated in the above table also asserts about 'the board ensures that the executive management implements the strategic policies of the bank and prevent the activities and relationships and attitudes that undermine governance' is responded by 22.2%, 55.6% and 11.1% of the respondents that they were disagree, agree and strongly agree respectively. As a consequence, more than half of the respondents believe that the board ensures that the executive management implements the bank's strategic policies and that actions, connections, and attitudes that undermine governance are avoided.

In response to the open-ended question, respondents provided the following examples of actions, relationships, and attitudes that undermine or degrade governance.

Conflicts of interest

Officers, workers, and directors are eligible for loans (i.e. where allowed by national law). Internal lending should be limited to market terms or terms offered to all employees, and may be restricted to certain types of loans; reports of insider lending should be provided to the board, and such lending should be subject to review by internal and external auditors and supervisors; and

providing preferential treatment to related parties and several other entities (e.g. lending on favorable terms, covering trading losses, waiving commissions).

In reply to criterion number 4 in the table also depicts about ‘the board has a sound understanding of risks of the bank and ensures that management has established strong systems to monitor those risks. Regarding this criterion, more than half of the respondents (55.6%) show their agreement that the board has a sound understanding of risks of the bank and ensures that management has established strong systems to monitor those risks, answered as agree (55.6%) and strongly agree (11.1%) respectively. On the other hand, the remaining 11.1% of the respondents were still unable to decide regarding this problem.

According to the OECD, the board of directors should provide a fair and clear evaluation of the company's condition and prospects. The board should decide what kind of substantial risks it is ready to accept in order to achieve its strategic goals. It should also keep its risk management and internal control systems in good shape. The board of directors should develop formal and open procedures for determining how to apply corporate reporting, risk management, and internal control principles, as well as for establishing a good working relationship with the company's auditor.

The other criterion regarding the board’s responsibility as can be seen in table 4.3.3 was criterion number 5 which describes ‘the Board conducts annual meetings in a way that shareholders are able easily ask questions was responded by majority of the respondents (66.7%) as agree. In addition, 22.2% of the total respondents revealed their agreements to the

applicability of the criterion by responding strongly agree. Unlike to this, the remaining 11.1% of the respondents were not able to decide about the problem.

Last but not least, the criterion about the duties and responsibilities of the board supposed to be discharged in the bank as shown in the same table was ‘the board provides to all its shareholders sufficient and timely information’ is replied by the respondents as follows. 88.9% of the respondents testified their agreement that the criterion is applied, answered as agree (33.3%) and strongly agree (55.6%). Yet another 11.1% of the respondents were replied as undecided that means they were unable to respond to the problem.

Table 4.3.2-3 Frequency and Percentage Values of ensuring efficiency and effectiveness of the board.

Criteria	Yes		No	
	F	%	F	%
1. Orientation and formal training Sessions	2	22.2	7	77.8
2. Independency	8	88.9	1	11.1
3. Performance evaluation	2	22.2	7	77.8
4. Sufficiency of information and Time	3	33.3	6	66.7
5. Adequacy of knowledge	7	77.8	2	22.2

► ‘F’ stands for frequency and ‘%’ stands for valid percentage value

Table 4.3.2.3 shows criteria that could enhance the efficiency and effectiveness of the board.

In this section, the researcher provided six sample criteria that he thought would ensure the board's efficiency and effectiveness if implemented in the bank, along with one open-ended question that allowed respondents to add additional if they had any.

In response to criterion number 1 as shown in the above table which deals with 'orientation and formal training sessions' to enhance the board's efficiency and effectiveness, replied by 77.8% of the total respondents as the bank does not have any formal orientation program for new board members nor does it organize formal training sessions for existing board members, they respond as 'No'. On the other hand, 22.2% of the respondents answered as Yes. In the same fashion, the result from the interview also displays that the bank did not have.

Organizations should provide information and meetings with key management to incoming directors to acquaint them with the Company's business, operations, finances, and governance procedures. Organizations should provide a system to help their board members improve their governance abilities. The Board should encourage directors to take part in educational programs to help them fulfill their duties as directors.

The other criterion suggested to be practiced in the bank as indicated in the above table is criterion 2, which deals with 'independency of the board of directors. It is therefore replied by 88.9% of the respondents as independent directors represent a substantial portion of the total board in contrast to the remaining 11.1% of the respondents who answered as 'No' that is independent directors are not substantial enough. Hence, as the result itself shows in this regard, majority

of the respondents testified that board members are independent. In addition, the result obtained from the interview also supports this response.

The corporate governance standards emphasize the need of a board member exercising independent judgment and being free of any undue influence. “All procedures, decision-making, and mechanisms should be designed in such a way that possible conflicts of interest are minimized or avoided.”

Replying to criterion number 3, as indicated in the above table states about ‘performance evaluation’ responded by 22.2% of the respondents as Yes. In other ways, the majority of the respondents (77.8%) were revealed as ‘No’ that is the board does not carry out annual evaluation of itself, its committees and its members. The interview result also shows as the board does not carry out an annual evaluation of itself and its committees.

Performance review is an important component of a board's management that adds to its effectiveness. As a result, every board must assess itself, its committees, and its members in order to establish whether the organization (in general) is on track and to assess its performance. Lorsch (1995) further on this concept by saying: “The inevitability of change and the fact that even the most talented and well-motivated directors and managers will find that their best-laid plans do not always work mean that an empowered board must periodically monitor and evaluate its own and its organization in general performance.”

Board members are jointly and severally responsible to the bank for harm caused by their failure to properly carry out their responsibilities, according to Banking Business Proclamation No. 592/2008, even though it says nothing regarding performance evaluation. As a result, it suggests that the board should have established systems in place to evaluate both the board's overall performance and the performance of individual directors, so that boards may make informed decisions in the interest of continual development.

It is no wonder that 'sufficiency of information and time' which stated in criterion number 4 in enhancing the efficiency and effectiveness of the board members is indicated as one of the major items that should be applied in the bank. In contrast to the should be, however, majority of the respondents (66.7%) respond as the board members do not have sufficient information and time that enables them to give strategic guidance of the bank. But, unlike to this, 33.3% of the respondents assured that the board members are not in short supply of information and time. Similarly, the interview revealed that the board members are extremely busy, since several of the bank's board members also serve as board members or chairpersons in other organizations in addition to their full-time jobs. This truth was also evident throughout the study work, as most board members took much too long to complete the questionnaire, even though it was only a matter of hours or days of labor.

According to the OECD (2005), the board should be provided with information in a timely manner, in a form and of sufficient quality to enable it to carry out its responsibilities. The form, timing, and quality of information received by a board (including the role performed by non-executive directors) has a significant impact on its efficacy. In some cases, relying just on

information provided by management may not be sufficient, and additional inquiries may be required if the director is to perform his or her duties effectively. Management is responsible for ensuring an adequate supply of information. The contradiction is that these boards rely on management for most of the information they want, which is inversely linked to the amount of time board members have to devote to company affairs. That is, if they set aside enough time, they are less likely to rely on a manager's knowledge, and vice versa.

The last but not least criterion recommended for use in the bank in order for board members to be efficient and successful, as indicated in the table above, is criterion number 5, which specifies "adequacy of knowledge." As a result, majority of the respondents (77.8%) replied as 'Yes' that is the board members know well about the bank and the board functions in contrast to those who answered as No (22.2% of the respondents). When asked to provide the reasons for their lack of understanding in the open-ended question, those who responded "No" presented their reasons as "orientation and continuing training are not provided."

According to the Basel Committee on Banking Supervision (2006), adequate understanding of board activities and the firm is a critical component of successful corporate governance. Being well-informed indicates that board members can effectively carry out their duties.

Table 4.3.2-4 Frequency and Percentage Values of protecting the rights of shareholders and other stakeholders.

Basic rights	1		2		3		4		5	
	F	%	F	%	F	%	F	%	F	%
1. Right to participate in and vote at general shareholder meetings			1	11.1			5	55.6	3	33.3
2. Supplied with timely, relevant, and material information					1	11.1	6	66.7	2	22.2
3. Pro rata participation in dividends and other distributions					2	22.2	7	63.6		
4. Aligns the long-term interests of employees with the long-term interest of the bank					1	22.2	6	54.5	2	18.2
5. Implements programs which take account of social responsibilities			1	11.1			4	44.4	4	44.4

► ‘F’ stands for frequency and ‘%’ stands for valid percentage value

As indicated in table 4.3.2.4, a number of criteria aimed at preserving the interests of shareholders and other stakeholders were mentioned, and respondents were asked to express their degree of agreement with how these criteria would be implemented in the bank.

Accordingly, criterion number 1 in the above table 4.3.2.4 states about ‘the right to participate in and vote at general shareholder meetings’ is responded by 11.1% of the total respondents disagrees. On the other hand, a total of 88.9% of the respondents represent their agreement replied as agree (55.6%) and strongly agree (33.3%). As a result, the majority of respondents believed that the ability of shareholders to attend and vote at general shareholder meetings is preserved.

Shareholders should have the right to participate effectively and vote at general shareholder meetings, according to the OECD, and should be aware of the rules that govern general shareholder meetings, including voting processes. It also implies that every shareholder has the right to ask questions, seek clarification on the Company's performance as reflected in the annual reports and accounts, or on any matter related to the Company's performance or the promotion of shareholders' interests, and to receive an explanation from the directors and/or management.

In response to criterion number 2 in the same table presents about 'supplied with timely, material and relevant information' is responded by 66.7% and 22.2% of the respondents agree and strongly agree, respectively. Whereas the remaining 11.1% of the total respondents revealed as they were not able to decide the level of their agreement, by replying undecided.

Shareholders shall be given enough and timely notice of the date, place, and agenda of general meetings, as well as complete and timely information of the topics to be considered at the meetings. Shareholders should be adequately informed about decisions involving fundamental corporate changes such as amendments to the company's statutes, articles of incorporation, or other governing documents, the authorization of additional shares, and extra-ordinary transactions that effectively result in the company's sale.

In reply to criterion number 3, as indicated in the above table states about 'Pro rata participation in the dividends and other distributions of the bank (if any)' responded by 77.8% of

the total respondents agree unlike those who were yet unable to decide, 22.2% of the total respondents.

As a consequence, the majority of respondents agreed that all shareholders should receive pro rata in the bank's dividends and any other distributions.

In reply to criterion number 4 which concerns with 'Aligning the long-term interests of employees with long term interests of the bank', 66.7% and 22.2% of the respondents expressed their agreement replied as agree and strongly agree. In other ways, the remaining 22.2% of the total respondents was yet unable to decide on the problem.

Corporations should have policies and practices in place that offer workers with remuneration and benefits that are suitable for the nature of the company's operation, as well as the job duties and geographic locations of its employees: Employees should be fully aware of the terms of any retirement, healthcare, insurance, or other benefit programs offered by their employers. Corporations should be open and honest with their workers about their operations and financial performance, as well as their long-term goals.

Criteria 5, which deals with "Implementing programs which take account of social responsibilities," is another criterion that should be applied in the bank to safeguard the rights of shareholders and other stakeholders, as shown in the above table. It is responded by 44.4% and the other 44.4% of the respondents as agree and strongly agree respectively. On the other hand, remaining 11.1% of the total respondents portrayed their disagreement answered.

By making charitable donations and encouraging its directors, managers, and workers to develop relationships with the communities in which they operate, a business may be a good citizen and contribute to the areas in which it works. It should also be involved in raising awareness of health, safety, and environmental problems, as well as any issues that are particular to the company's line of business.

Table 4.3.2-5 Frequency and Percentage Values of the roles and responsibilities of the board committees

Criteria	1		2		3		4		5	
	F	%	F	%	F	%	F	%	F	%
The Audit committee										
1. Monitors the integrity of financial Statements							7	77.8	2	22.2
2. Reviews the bank's internal financial controls							6	66.7	3	33.3
3. Reviews the work plan of internal and external auditors			2	22.2	1	11.1	6	66.7		
The Risk committee										
4. Advises the full board on risk Management			1	11.1			5	55.6	3	33.3
5. Reviews the effectiveness of the internal controls			2	22.2	1	11.1	6	66.7		
The Human Resource Management committee										
6. Ensures that bonus and incentive schemes motivate employees					1	11.1	6	66.67	2	22.2

Criteria	1		2		3		4		5	
	F	%	F	%	F	%	F	%	F	%
7. Ensures that the executive directors and key management are rewarded			1	11.1	1	11.1	7	77.8		
8. Reviews the compensation of board members and of senior management			2	22.2			5	55.6	2	22.2
The Nomination committee										
9. Establishes succession plans			1	11.1	1	11.1	5	55.6	2	22.2
10. Recommends nominees to the Board					2	22.2	6	66.7	1	11.1

► ‘F’ stands for frequency and ‘%’ stands for valid percentage value

As indicated in table 4.3.2.5, many criteria relating to the board committee's tasks and responsibilities are mentioned, and respondents are asked to express their degree of agreement with the extent to which they are carried out.

In response to criterion number 1 in the above table presents about ‘monitoring the integrity of financial statements’ is responded by 77.8% and 22.2%, of the respondents as agree and strongly agree respectively in the bank. As a consequence of the audit committee's work, this outcome means that all respondents express agreement. Similarly, the interview's outcome reveals that the audit committee checks the financial statements' integrity.

Similarly, as can be seen from the above table, the audit committee analyzes the company's internal financial controls for criteria number two, which is "reviewing the bank's internal financial

controls." This was also replied by 66.7% and 33.3% of the respondents as agree and strongly agree, respectively. Furthermore, the result of the interview, which shows that the audit committee is responsible for this, reinforced this argument.

In response to criterion number 3, as indicated in the above table states about 'Reviewing the work plan of external and internal auditors' responded by majority (66.7%) of the respondents as agree that is the audit committee reviews the work plan of the external auditors and the internal auditors and reviews the result of their work. On the other hand, 22.2% of the total respondents portrayed their disagreement replied as disagree. However, the remaining 11.1 percent of respondents, who were labeled as uncertain, did not make a decision on whether or not to answer to the question.

The audit committee is in charge of reviewing the conclusions of any internal investigations conducted by internal auditors into problems involving suspected fraud, irregularity, or a substantial failure of internal control systems, as well as reviewing the work of the external auditors. It examines and approves the external auditors' yearly work plan, as well as their credentials and effectiveness. It also oversees the internal audit's execution, receiving and evaluating their work plan as well as any reports deemed relevant or noteworthy for the company.

In reply to criterion number 4 as shown in the above table which deals with 'advising the full board on risk management', replied by 55.6% and 33.3% of the total respondents as the risk committee advises the full board on risk management', they respond as agree and strongly agree, respectively. Whereas the remaining 11.1% of the respondents revealed as disagree.

The 5th criteria shown in the above table which discusses about 'reviewing the effectiveness of the internal controls' is answered by 22.2% of the total respondents as disagree. Whereas 11.1% of the respondents were not able to decide on this item. On the other hand, the remaining, indeed the majority, 66.7% of the respondents were responded as agree that is the audit committee reviews the effectiveness of the internal controls. As a consequence, more than half of the respondents agreed that the item is implemented at the bank, as shown in the results.

Similarly, the responses for criterion number 6 which is 'Ensuring that bonus and incentive schemes motivate employees' as can be seen from the above table shows that majority (88.9%) of the respondents represent their agreement, answered as strongly agree (22.2%) and agree (66.7%). Whereas the remaining 11.1% of the total respondents were still unable to decide on the problem.

There should be a structured and open mechanism for creating executive compensation policies and setting individual director salary packages. Bonus and incentive programs should also be in place to encourage staff to focus on the company's long-term success. No director should have a say in determining his or her own pay. The human resource management committee is in charge of this.

The seventh criterion indicated in the above table also asserts about 'ensuring that the executive directors and key management are fairly rewarded' is responded by 11.1% of the respondents as disagree. Whereas the other 11.1% of the respondents were not able to decide on

this item. On the other hand, the remaining, indeed the majority, 77.8% of the respondents were responded as agree. As a consequence, more than half of the respondents agreed that the human resource management committee is responsible for ensuring that the executive directors and senior managers are appropriately compensated.

The finding of criterion 8 as indicated in table 4.3.5 which deals with ‘Reviewing the compensation of board members and of senior management’ shows that majority of the respondents replied as agree and strongly agree, 55.6% and 22.2% each respectively. Only (but not insignificant) 22.2% of the respondents responded as disagree. As a result of this finding, the human resource management committee analyzes board member and senior management remuneration to verify that it is in line with the bank's culture, long-term objectives, strategy, and control environment.

To mitigate potential conflicts of interest and provide assurance to shareholders and other stakeholders, the human resource management committee should review the compensation of board members, senior management, and other key personnel and ensure that it is consistent with the bank's culture, control environment, and long-term objectives and strategy. The other criterion shown in the above table is item number 9 which asserts ‘Establishing succession plans.’ As can be seen from that table, most of the respondents (88.9%) replied that the nomination committee establishes (and the board approves) succession plans for senior executives and the chairman and clear procedures for the appointment of senior staff and the recruitment of new board members, 55.6% (agree) and 22.2% (strongly agree) each respectively. On the other hand, the remaining 11.1% and the other 11.1% of the total respondents were revealed as disagree and

undecided respectively. Similarly, the interview revealed that the nominating committee creates succession plans for top executives and the chairman, as well as defined processes for the hiring of senior employees and the recruitment of new board members.

The Basel Committee on Banking Supervision recommends that the nomination committee develop a clear succession plan for its chairman and chief or senior executives, as well as clear procedures for the appointment of senior staff and the recruitment of new board members, to avoid unplanned and unexpected departures that could jeopardize the company's and shareholders' interests.

The finding of criterion number 10 as indicated in table 4.3.5 which deals with 'recommending nominees to the board' also shows that majority of the respondents replied as agree and strongly agree, 66.7% and 11.1% each, respectively. Whereas the remaining 22.2% of the respondents were responded as undecided, they were not able to represent the level of their agreement, however. As per this result, we can conclude that the nomination committee recommends the nominees to the board of directors. Similarly, the response gained from the interview strengthens this result.

Table 4.3.2-6 Frequency and Percentage Values of Transparency and disclosure

Criteria	Yes		No	
	F	%	F	%
1. A report on the activities of each of the board committees	2	22.2	7	77.8

2. Explaining the risk exposures and its strategy for managing risk	9	100		
3. Having a policy in place to ensure prompt disclosure	9	100		
4. Publishing an account of business objectives and organizational and governance structures	7	77.8	2	22.2
5. Explaining the incentive structures and remuneration practices	4	44.4	5	55.6

► ‘F’ stands for frequency and ‘%’ stands for valid percentage value

Table 4.3.2.6 lists certain criteria for which application is recommended in order to increase the bank's transparency and material disclosure. As a result, respondents were asked to express their level of agreement with the bank's practical execution of these criteria.

Accordingly, criterion 1 in the above table 4.3.2.6 states about ‘containing a short report on the activities of each of the board committees’ is responded by 77.8% of the respondents as ‘No’. In other ways, the remaining 22.2% of the total respondents were revealed their answer as ‘Yes’. In addition to the response obtained from the questionnaire the result from the analysis of the secondary data (from the annual report) also revealed that the bank’s annual report does not contain a report on the activities of each of the board committees.

In response to criterion number 2 in the same table presents about ‘explaining the risk exposures and its strategy for managing risk’, is replied by 100% of the respondents as the bank’s annual report includes a section explaining the bank’s risk tolerance, its risk exposures, and its strategy for managing risk. The interview results also revealed that the bank's risk exposures and the techniques utilized to manage them are described in the bank's annual report. Furthermore, the

results of the secondary data analysis (from the annual report) indicated that the bank's annual report included a section outlining the bank's risk tolerance, risk exposures, and risk management approach.

The other requirement in the table is criterion 3, which indicates that "having a policy in place to guarantee rapid disclosure." As shown in the table, every respondent stated that the bank has a policy in place to guarantee timely disclosure of material, unanticipated events, or developments that might influence the bank's performance. And the knowledge received from the interview process added to this that the bank had met this requirement.

The finding of criterion 4 as indicated in table 4.3.2.6 which deals with 'publishing an account of business objectives and organizational and governance structure' shows that majority of the respondents (77.8%) replied as 'Yes'. On the other hand, 22.2% of the respondents reacted to the contrary that the bank does not publish an account of its business objectives and its organizational and governance structure. As a result, it is clear that the bank provides a description of its business objectives as well as its organizational and governance structure. In addition, as the bank provides an account of its business objectives and organizational and governance structure, the information gathered during the interview session and analysis of secondary data is also supporting this fact.

Criterion number 5, 'explaining the incentive structure and remuneration practices' is replied by 55.6% of the total respondents that the bank's annual report does not explain the incentive structure and remuneration practices for senior management, as well as the actual

amounts paid to senior managers and to directors in contrast to the remaining 44.4% of the respondents answered as 'Yes'. In addition to the responses obtained from the questionnaire, the analysis of secondary data (from the annual report) revealed that the bank's annual report does not explain the incentive structure and remuneration practices for senior management, as well as the actual amounts paid to senior managers and directors.

In the bank's annual report, information on the bank's incentive structure (remuneration policies, executive compensation, bonuses, and stock options) should be provided. The board shall publish its pay policy, including incentives for the board and senior management, in its annual report every year, including the Quantum and component of remuneration for directors, including non-executive directors, on a consolidated basis.

CHAPTER 5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with conclusions and recommendations, respectively. Hence, in chapter four, the study's key findings were evaluated and discussed, allowing a conclusion to be drawn. Finally, based on the outcomes of the investigation, possible recommendations for the key issues discovered are presented.

5.1 Summary

According to the discussion and analysis of the data presented in chapter four, the following findings were drawn.

About developing a culture of good corporate governance, the finding revealed that:

- The bank implements internal controls and procedures to regulate its whole department's work and conduct.
- Although it is not displayed on its (the bank's) website, all employees are obliged to sign a Code of Business Ethics when they join the bank.
- The board establishes a "Corporate Governance Committee," whose mission is to ensure that the bank is adhering to its obligations to good governance.
- The bank does have an official "Compliance Department," whose goal is to ensure that staff understand and follow the bank's internal processes, as well as help the bank meet its external responsibilities.

- The bank is implementing a program to enhance employee knowledge of corporate governance concerns and the role that each employee can play in enhancing the bank's good governance.

The study's findings also revealed that the board fulfills its duties and responsibilities effectively. This is confirmed by the fact that:

- The board of directors formally approves a set of performance indicators that shall be used to assess the bank's development as well as the management's performance.
- The board approves and monitors the strategic objectives of the bank and the values and standards of work with the interests of stakeholders.
- The board ensures that the bank's strategic policies are implemented by senior management, and that actions and connections that compromise governance are prevented.
- The board has a thorough grasp of the bank's risks and verifies that management has put in place effective risk management procedures. However, the board of directors failed to have detailed discussions about the risks and the bank's internal control systems, compliance, and anti-money laundering policies.
- The board conducts annual meetings (and any extra-ordinary meetings) in a way that shareholders are able easily ask the board questions about, for example, the selection of auditors, auditors' remuneration, etc.
- The board provides all of its shareholders with sufficient and timely information about the general meeting's date, place, and agenda.

About the extent to which the bank ensures the efficiency and effectiveness of the board, the study discovered that there are still some limitations; The bank lacks a formal orientation program for new board members as well as formal training sessions for existing board members; the board does not conduct annual evaluations of itself, its committees, or its members; and board members lack the necessary information and time to provide strategic guidance to the bank. The findings, on the other hand, indicated that there are strong sides; the majority of board members are independent directors, and board members have appropriate understanding of the bank and board duties.

In terms of safeguarding shareholders' and other stakeholders' rights, the research found that the bank is doing a good job of allowing shareholders and other stakeholders to effectively exercise their rights. The vast majority of respondents stated that all shareholders have the right to:

Participate in and vote at general shareholder meetings; obtain timely, material, and relevant information about the topics to be discussed at general shareholder meetings; and participate pro rata in divided shares. Other stakeholders (employees, for example) have the right to align their long-term interests with the bank's long-term objectives without being discriminated against (the general public).

The analysis revealed that the extent to which board committees are carrying out their tasks and obligations ought to be encouraged. The vast majority of responders said that they performed well.

Regarding the transparency and disclosure of material information, the finding represents that the practice is good although there is still a problem. The good practice is that:

- A portion of the bank's annual report explains the bank's risk exposures and risk management approach,
- The bank has a policy in place to ensure the prompt disclosure of material, unforeseen events, or developments which could affect the bank's performance,
- The bank publishes an account of its business objectives and its organizational and governance structure, and

On the other hand, the problem is that:

- The bank's annual report does not contain a report on the activities of each of the board committees,
- The bank's annual report does not explain the incentive structure and remuneration practices for senior management, as well as the actual amounts paid to senior managers and to directors.

5.2 Conclusion

Company governance is more than merely establishing certain corporate structures and adhering to a set of rigid guidelines. A set of general principles is required. The parties concerned should then adapt these flexibly and pragmatically to the particular conditions of each company. In this regard, the findings indicated that the bank has a culture of strong corporate governance.

In terms of the extent to which the board's duties and responsibilities are implemented, the study's findings revealed that the board is effective in fulfilling its obligations. The board's main duties and responsibilities include approving and monitoring the bank's strategy, establishing performance metrics for management and the bank's development, and ensuring that strategic policies are implemented. Members of the board must also be aware of the risks that the bank is taking and examine internal controls. The board's responsibilities also include safeguarding the interests of shareholders and the public. Similarly, the study indicate that the extent to which board committees are carrying out their obligations and roles is promising.

The study revealed that there are still some issues with the bank's ability to ensure the board's efficiency and effectiveness: the bank lacks a formal orientation program for new board members and formal training sessions for existing board members, the board does not conduct annual evaluations of itself, its committees, and its members, and board members do not receive formal compensation. On the other hand, the finding showed that the bank has some strong sides; majority of the board members are independent directors and board members have adequate knowledge of the bank and the board functions.

In terms of safeguarding the rights of shareholders and other stakeholders, the research found that the bank is doing a good job of allowing shareholders and other stakeholders to exercise their rights effectively. Although there is still an issue, the conclusion indicated that the bank has a strong practice of openness and disclosure of material information.

In conclusion, the amount to which corporate governance concepts are applied in the Dashen Bank is encouraging, even if it (the bank) still has issues with ensuring the board's efficiency and effectiveness, as well as openness and disclosure of key information.

5.3 Recommendations

Based on the major findings of the study and the conclusions drawn, the researcher suggested the following recommendations.

A well structured and cohesive set of governance procedures and governance structures is required for a bank to operate efficiently and successfully. It is difficult for a bank to create such a cohesive structure of governance since banks are complicated entities that are accustomed to working under stringent controls. Members of the board must be attentive and capable, and their performance must be evaluated. As a result, the following recommendations are suggested for the existing problem.

New board members should be given a structured orientation program, and current board members should be given official training sessions. New directors must have a thorough understanding of the firm and the industry in which it works in order to be effective. New directors should be able to participate in an orientation program to learn about the company's financial, strategic, operational, and risk management positions, governance practices, directors' rights, duties, and responsibilities, senior executives' roles and responsibilities, and the role of board committees. The bank should also provide a method for board members to improve their governance abilities. Directors should be able to receive continuous education to keep their skills and knowledge up to date. Even the Board of Directors should urge directors to take part in educational programs to help them fulfill their duties as directors.

The board should carry out annual evaluation of its self, its committees, and its members. Performance evaluation is a key ingredient in the management of a board that contributes to its effectiveness. The efficacy of the entire board, the activities of board committees, and the contributions of individual directors must all be evaluated for meaningful board evaluation. The performance of the whole board, as well as its committees, should be assessed on an annual basis. The board should undertake frequent – usually yearly – self-evaluations to see if it and its committees are following the processes needed to function successfully, in order to see if the organization (in general) is on the right track and to quantify its performance.

Members of the board of directors should have enough knowledge and time to provide strategic counsel to the bank. Board members, particularly those without side directors who spend much of their time outside the company for which they serve as board members, must be

continuously provided with the necessary information to enable them to provide strategic guidance to the bank in order to effectively carry out their corporate governance responsibilities. The form, timing, and quality of information received by a board (including, in particular, the role performed by non-executive directors) has a significant impact on its efficacy. In this regard, the corporate governance principles indicate that “Board members shall act in the best interests of the firm and the shareholders on a fully informed basis, in good faith, due diligence, and care.”

For healthy and successful corporate governance, transparency is essential. When there is a lack of transparency, it is difficult for shareholders, other stakeholders, and market players to adequately monitor and hold the board of directors and senior management responsible, as stated in current Basel Committee advice on bank transparency. As a result, the bank's annual report should disclose the activities of each of the board committees, as well as the incentive structure and remuneration practices for senior management, as well as the actual amounts paid to senior managers and directors, to ensure transparency and disclosure of its material information.

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Appendix – A: Questionnaire

Addis Ababa University College of Business and Economics School of Commerce

MBL Program (graduate student) Questionnaire to be field by the Board members of Dashen Bank S.C.

Dear Respondent,

The purpose of this survey is to collect information on “the application of corporate governance principles in Dashen Bank S.C.

The information gathered through the questionnaire will be extremely useful in achieving the study's goals. As a result, you are invited to complete and return the questionnaire. The information you provide will be used solely for academic purposes and will be kept private.

For any clarification please do not hesitate to contact the researcher using belayneshbeshah@gmail.com or +251911686028. Belaynesh Beshah

Thank you in advance,

I. General information about the respondents

The questions that follow are about your personal information. This information is provided voluntarily, and its confidentiality is guaranteed. Individual data will not be disclosed.

1. Your sex, Male Female

2. Your marital status, married single other_____

3. Your age group, under 30 30 to 45 45 to 60

 60 or older

4. Your highest level of education, diploma degree masters degree

 PhD

5. Your work experience_____

II. Questions about the corporate governance principles

General guidelines

Put a tick ✓ sign to appropriate space of particular score, which is suitable to your agreement about the following statements.

1.1 Developing a culture of good governance throughout the bank

Criteria	Yes	No
1. Internal controls and procedures are established by the bank to govern the work and behavior of all of its departments.		
2. The bank has a Code of Business Ethics that all new employees must sign when they start working there.		
3. The board establishes a "Corporate Governance Committee," whose mission is to ensure that the bank is adhering to its pledges to good governance.		
4. The bank has a formal "Compliance Department" whose objective is to guarantee that staff understand and follow the bank's internal procedures, as well as help the bank meet its external commitments.		
5. The bank is implementing a program to enhance employee understanding of corporate governance concerns and the role that each employee can play in strengthening the bank's governance.		

► Please share your thoughts on your bank's corporate governance culture in general.

1.2 Roles and responsibilities of the board

➡ The range scores are **1** for strongly disagree, **2** for disagree, **3** for undecided, **4** for agree, and **5** for strongly agree with the statement.

Criteria	1	2	3	4	5
1. The board of directors officially approves a set of Key Performance Indicators (KPIs) that may be used to track the bank's success as well as the management team's performance.					
2. The bank's strategic objectives, as well as the bank's values and work standards, are approved and monitored by the board in the interests of stakeholders.					
3. The board ensures that the bank's strategic policies are implemented by the executive management and that activities, relationships, and attitudes that undermine governance are avoided.					
4. The board has a thorough awareness of the bank's risks and ensures that management has put in place solid procedures to monitor them.					
5. Annual Meetings (and any special meetings) are held in such a way that shareholders can easily ask the board questions about topics such as director selection and remuneration.					
6. The board provides all of its shareholders with sufficient and timely information about the general meeting's date, location, and agenda.					

► If you agree with Q4 Above, please specify some of the activities and relationships

and attitudes that undermine or diminish governance.

1.3 Ensuring efficiency and effectiveness of the board.

Criteria	Yes	No
1. The board members are educationally qualified		
2. Does the bank offer a formal orientation program for new board members, as well as formal training sessions for current board members?		
3. Independent directors make up a significant section of the Board.		
4. The board evaluates itself, its committees, and its members on an annual basis.		
5. All members of the board of directors have enough information and time to provide strategic direction to the bank.		
6. The board is well-versed in the bank's operations and functions.		

► If there are any other please specify.

1.4 Protecting the rights of shareholders and other stakeholders

➡ The range scores are **1** for strongly disagree, **2** for disagree, **3** for undecided, **4** for agree, and **5** for strongly agree with the statement.

Basic rights of shareholders	1	2	3	4	5
1. At general shareholder meetings, including for the election of directors, all shareholders have the right to attend and vote.					
2. All shareholders are given timely, accurate, and relevant information about the matters to be discussed at shareholder meetings and the bank's operations in general.					
3. All shareholders receive pro rata in the bank's dividends and other distributions, as well as the bank's assets in the case of liquidation.					
4. The bank takes special steps to match workers' long-term interests with the bank's long-term goals.					
5. The bank is putting in place programs that consider social, charity, or other non-traditional goals that may benefit the bank, its employees, or the community in other ways.					

1.5 Internal structures: the roles and responsibilities of committees of the board

Items	1	2	3	4	5
Audit committee					
1. The audit committee oversees the financial statements' integrity.					

2. The bank's internal financial controls are examined by the audit committee.					
3. The audit committee examines the external auditors' and internal auditors' work plans, as well as the results of their work.					
Risk committee					
4. The risk committee provides risk management advice to the entire board.					
5. The effectiveness of internal controls is evaluated by the risk committee.					
Human Resource Management committee					
6. The Human Resource Management committee guarantees that bonus and incentive plans encourage employees to focus on the company's long-term success rather than short-term goals.					
7. The executive directors and key management are awarded by the Human Resource Management committee.					
8. The compensation of board members and senior management is reviewed by the Human Resource Management committee to ensure that it is in line with the bank's culture, long-term objectives, strategy, and control environment.					
Nominations committee					
9. The committee develops (and the board approves) succession plans for senior executives and the chairman, as well as clear protocols for senior staff appointments and new board member recruitment.					
10. The committee makes recommendations to the board of directors.					

1.6 Transparency and disclosure

Criteria	Yes	No
1. A summary report on the activity of the board committees is included in the bank's annual report.		
2. A part of the bank's annual report explains the bank's risk exposures and risk management approach.		
3. The bank has a policy in place to ensure that material, unforeseen events, or developments that potentially influence the bank's performance are disclosed promptly.		
4. The bank makes its business objectives, as well as its organizational and governance structure, public.		
5. The bank's annual report explains senior management's incentive structure and remuneration methods, as well as the actual amounts paid (in cash or stock) to top managers and directors.		

Please express your thoughts on the corporate governance principles and the importance of adhering to them in general.

Thank you again,

Appendix – B: Interview Questions

Addis Ababa University College of Business and Economics School of Commerce

MBL Program (graduate student) Questionnaire to be field by the Board members of Dashen Bank S.C.

Interview questions with the Dashen Bank's Board members and Senior Managers and the board secretary

These interview questions are prepared for the board members and the senior manager and the board secretary of the bank to gather information about the extent of the application of corporate governance principles in banks in the Dashen Bank. Your cooperation is highly desirable, and information provided will be kept confidential.

1. Do you think the bank has a risk exposure?
2. Does the bank disclose its risk exposures, if any, to the public?
3. What do you think are the strategies that the bank devices to manage these risks, if any?
4. Do you believe the nomination committee recommends nominees to the board?
5. What do you think about the nomination committee to establish succession plans for the senior executives and the chairman and procedures for the appointment of senior staff and the requirement of new board members?
6. Do you think the Human Resource Management committee ensures that bonus and incentive schemes motivate employees of the bank?
7. What do you think about the audit committee reviews the bank's internal financial controls?

9. What can you say about the board members sufficiency of information and time to carry out their functions?
10. What do you believe about the board to undertake performance evaluation of it self, its committees and its members?
11. Do you think the bank aligns the long-term interests of the employees with its long- term interests?
12. Is there a formal compliance department with in the bank?
13. What can you say about the existence of a corporate governance committee with in the bank?
14. What do you think are about the educational qualification of the board members?
15. Do you think the bank publishes an account of its business objectives and its organizational and governance structure?
16. Do you believe the bank has a policy in place to ensure prompt disclosure of material information?