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College of Business and Economics
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**Assessment of Corporate Governance Practices and
Challenges: The case of Cooperative Bank of Oromia S.C.**

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**A project submitted to Addis Ababa University School of Commerce in
Partial Fulfilment of the Requirement of the Award of Masters of Art Degree
in Business Leadership.**

Advisor: Fisseha Afework (Ast. Professor)

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STATEMENT OF DECLARATION

I, Gadissa Mamo, have carried out independently a research work on the topic entitled **“Assessment of Corporate Governance Practices and Challenges in the case of Cooperative Bank of Oromia”** in partial fulfilment of the requirement for the Master’s Degree in Business Leadership with the guidance and support of the research advisor. This study is my own work that has not been submitted for any degree or diploma program in this or any other institutions.

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Gadissa Mamo

June 2020



STATEMENT OF CERTIFICATION

This is to certify that Gadissa Mamo has carried out this project work on the topic entitled “**Assessments of Corporate Governance practices and challenges: The case of Cooperative Bank of Oromia**” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of Degree of Master of Art in Business Leadership.

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ABBREVIATION AND ACRONYMS

| | |
|-------------|--|
| BOD | Board of Directors |
| CEO | Chief Executive Officer |
| NBE | National Bank of Ethiopia |
| NED | Non-Executive Directors |
| OECD | Organization for Economic Cooperation and Development |
| SPSS | Statistical Package for Social Science Studies |

ABSTRACT

The purpose of this study was to assess Practices and Challenges of Corporate Governance in the case of Cooperative Bank of Oromia. Descriptive type of research design was adopted. The sample size was determined to be equal to the target population as the population size was below 100. The research was done based on primary and secondary data where the primary data was collected through questionnaires distributed to 78 middle and a high level management of the Bank. Of the total 78 questionnaires distributed 66 were managed to be collected. The study used SPSS version 23 to get in to descriptive statistic results. Validity and reliability tests were also done. Findings from the respondents were summarized in to two categories where the first covers the current practice of the Corporate Governance Principles and the second covers the challenges. As per the respondents view, except “Executive management succession plan” and “Semi-annual board assessment” the rest of the Corporate Governance principles were implemented in the Bank. However, challenges identified through the study revealed that Board members lack of knowledge—diversity and capability, lack of alignment between board and management in the banks’ strategy, boards’ unwillingness to challenge the management, and boards’ insufficient focus on substantive issues were among highly rated in terms of mean value. Hence, the study concluded that as Boards are a valuable source of knowledge and expertise that can contribute to strategy decision-making, shall actively build their knowhow on critical strategic areas. In addition, alignment between board and management member shall be enhanced in order to give focus on substantive issues.

Key words: *Corporate Governance, Executive management, Corporate Governance Practices, Corporate Governance Challenges.*

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Attention in Corporate Governance is inclining at an exponential rate. Improvements in Corporate Governance practice are being observed at a global level. International bodies are ever interested in developing internationally acceptable standards of Corporate Governance. Similarly, local supervisory organs such as the National Bank of Ethiopia has been issuing multiple circulars and directives to let aware the Banking industry with what the Corporate Governance should look like. Accordingly, banks are cascading down through policy and procedure to fit into their respective operational levels.

According to Greuning and Brafañoric (2009), Corporate Governance is a business relationship between the Bank's top level management, its board members, its shareholders, and other stakeholders directly or indirectly related with. It is the system intended to skillfully direct the company based on good Corporate Governance principles. Good Corporate Governance principles are commitment to Corporate Governance, structural and functioning of the board, transparency and disclosure.

However, Solomon (2004) **defined** Corporate Governance as a web of relationships, not only between owners and a company but also between a broad range of other 'stakeholders': bondholders, employees, suppliers, customers, and company.

As per Greuning and Brafañoric (2009), overall Corporate Governance started from protecting the interests of depositors and other stakeholders by established risk profile and in compliance with applicable laws and regulations. Corporate Governance dwells on setting corporate objectives, identifying risk profile of a bank, alignment of activities for day-to-day operation of a bank.

The principles, procedures and policies that help the management and the board members to be aligned and work for the very broad objective of the organization.

International Finance Corporation (IFC 2016) **defines** good Corporate Governance in five basic aspects; shareholder rights, disclosure and transparency, appropriate control environment, good board practices, and commitment to Corporate Governance.

Corporate Governance for corporate success is a recent hot topic that mentioned as a huge importance. The need to improve and reform Corporate Governance practices were triggered from the weak systems of Corporate Governance resulted in huge corporate failure. Hence, putting sound Corporate Governance in an organization can influence the operation through effectively designed system such as banking efficiency, mitigates financial risks, and increased systemic stability. Corporate Governance helps to improve efficiency of an organization by better utilizing resources.

In Ethiopia, before the National Bank of Ethiopia has issued the Corporate Governance directive for the financial sectors, the 1960's Commercial Code of Ethiopia was in place. Though, most of the commercial code topics are covered in the National Bank Directives, the mischief, mal-operation, conflict of interest and the overall unethical way of doing business observed in the industry demanded supervisory body attention to strengthen the Corporate Governance by issuing new directives.

As per the National Bank of Ethiopia Directive No. SBB/71/2019, maintaining the soundness and safety of the financial industry in general and the banking business in particular shall be secured through a Corporate Governance. Balancing risk taking appetites, increasing business farsightedness, objectives of attaining long term shareholders' value and customers as well as stakeholders interest are among the focus of the Corporate Governance.

In this project paper, National Bank of Ethiopia Directive No. SBB/71/2019 and OECD principles would be sighted to assess Cooperative Bank of Oromia's Corporate Governance practices and challenges. It is also clear that policy makers, corporations, investors and stakeholders worldwide have been benchmarking the Organization for Economic Cooperation and Development (OECD) to develop a set of Corporate Governance standards and guidelines.

1.2 BACKGROUND OF THE ORGANIZATION

Sound Banking system, which provides efficient concentration and allocation of financial resources, is among the factors indicating the efficiency of a given financial system.

As regards to Ethiopia, although modern Banking system was introduced in the early 20th century, the sector has hardly shown significant change until the rise of the new economic policy of 1991. This was mainly because of the then financial sector policy that has highly regulated and centralized the operation of the financial sector in general and that of the Banking industry in particular. There were thus little effort to enhance the Banking habits of the people and address their financial service needs especially of the rural people. Well along, the financial sector reforms of 1994 initiated by the new economic policy of 1991, created fertile ground for market forces to operate in the financial sector of the country. The reform laid necessary legal ground that deregulated the financial sector and encouraged privatization and private business development in the financial sector. In response to this inviting legal ground and market demand, private Banks started to enter the financial market of the country. The reform has thus brought remarkable change in the financial sector in the general and Banking industry in particular.

Pursuant to it, the Cooperative Bank of Oromia was established to serve the needs of rural people that are the primary actors in the country's economic development endeavor. The Bank was thus registered on October 29, 2004 in accordance with article 304 of the commercial code of Ethiopia, and entered into a full-fledged Banking operation on 8th of March 2005. Majorly owned by Cooperative societies, a *raison d'être* (main reason of its existence) is to contribute towards the improvement of financial service provision in the country in general and that of the rural areas in particular.

Since its establishment, the Bank has been playing significant role in economic transformation endeavor of the country through provision of financial services to all sectors of the economy including private individuals and businesses, Cooperatives, development enterprises and others. Currently, the Bank outreaches its services through 418 branches countrywide. The Bank has been expanding its branch outlets by giving a priority to reach the unbanked segment of the population in the country. Currently driven by vision 2025 of being the leading private Bank in the country, the Bank is working towards creating greater customer experience through delivery of unique value propositions to business segments principally focusing on its digital presence.

1.3 STATEMENTS OF THE BROBLEM

Understanding the critical importance of financial industries Governance, the Basel Committee has been publishing a guidance paper to assist Banking supervisors in promoting the adoption of sound Corporate Governance practices. Most of this guidance are drawn from OECD to enable member countries in their effort to assess and correct their Corporate Governance framework. Having the international Basel committee accords, the National Bank of Ethiopia has been issuing a Corporate Governance directives for Banks to abide with as a principles.

The Banking business is a back-bone for a given country's economy. This happens when proper management and pool of resources are in place. Selecting proper board members from different background that could contribute to the competitive advantage of an organization is part of principles of Corporate Governance.

It is becoming a common practice to see the supervisory body react after the fact destroys the well-being of the financial industry. This further challenges organizations to fast adopt the requirement issued from the supervisory body. In this dynamic business environment, authorities need to pay more attention to Corporate Governance as institutions are engaged in international trade and complex businesses to protect the stability of the market and stockholders rights.

Adherence to Corporate Governance rules and international best practices might be a challenge in the Banking industry. Mal-practices in the sector have been a public topic of discussion for decades. From simple to grave breaches of laws and regulations Banks have been mentioned as an instances. Therefore, assessing the current practices and challenges of Corporate Governance in the Banking industry specifically, in Cooperative Bank of Oromia will help to draw lessons and apply. To do the assessment, the Corporate Governance practices of the Bank in comparison with the OECD and the National Bank of Ethiopia directives will be taken in to consideration.

Hence, in this study, a detail assessment will be done to identify what challenged the Bank to meet the Corporate Governance principles and recommendation will be drown for remedial action.

1.4 RESEARCH QUESTIONS

The research question includes;

1. What are the determinants/indicators of effective Corporate Governance?
2. What is the current Corporate Governance practice in Cooperative Bank of Oromia?
3. What are the challenges of Corporate Governance in Cooperative Bank of Oromia?

1.5 OBJECTIVES OF THE PROJECT

1.5.1 GENERAL OBJECTIVES

The main objective of this project is to assess Corporate Governance practices and challenges in Cooperative Bank of Oromia in light of the National Bank of Ethiopia directive and OECD principles.

1.5.2 SPECIFIC OBJECTIVES

The specific objectives of this project are;

1. To assess determinants/indicators of effective Corporate Governance,
2. To examine the current Corporate Governance practices of Cooperative Bank of Oromia,
3. To assess the challenges of Corporate Governance in Cooperative Bank of Oromia.

1.6 DIFINITION OF TERMS

Definition of terms are as per the National Bank of Ethiopia Directive no: SBB/71/2019,

1.6.1 Board – “means board of directors of a Bank”.

1.6.2 Chief Executive Officer – “means a person, by whatever title that person may be referred to, who is primarily responsible for the day to day management of the affairs of a Bank”.

1.6.3 Corporate Governance – “means the process and structure used to direct and manage the business and affairs of a Bank towards enhancing business prosperity and corporate accountability with prior aim of attaining long-term shareholders’ value, and interest of customers’ and other stakeholders”.

- 1.6.4 Director** – “means any member of the board of directors of a Bank, by whatever title he may be referred to”.
- 1.6.5 Financial Institution** – “means insurance company, Bank, micro-financing institution, postal savings or such other similar institution as defined by the National Bank”.
- 1.6.6 National Bank** – “means the National Bank of Ethiopia”.
- 1.6.7 Remuneration** – “means board compensation and allowance paid to directors”.
- 1.6.8 Risk management program** – “means a program that clearly identifies and measures inherent and significant risks of a Bank and draws a strategy, policy and procedure to mitigate such risks”.
- 1.6.9 Senior management** – “means chief executive officer, and any other officials, as may be defined by individual Bank, responsible for day-to-day running of the operation”.

1.7 SIGNIFICANCE OF THE STUDY

As the project paper focus on practices of Corporate Governance in comparison with the OECD principles and NBE’s directive, the assessment result will help the Bank to know where the Corporate Governance practices are debilitated and take remedial action based on the recommendations.

1.8 SCOPE OF THE STUDY

This project is limited to assessing Cooperative Bank of Oromia Corporate Governance practices and challenges in light of the NBE directive and OECD principles. Indicators of Corporate Governance is also assessed in comparison with the local and international principles. In addition detailed assessment is also undertaken to verify the bank’s status in practicing the principles. Identifying challenges in practicing the principles are also under the scope of this study.

1.9 LIMITATION OF THE STUDY

The research is done to assess a Corporate Governance practices and challenges of Cooperative Bank of Oromia. In conducting this study, previous studies done in the subject area in Ethiopia is found to be very limited to enable the researcher capitalize on it. In addition, the project is an

assessment type done only on a single bank which could not tell relationship with performance and the overall picture of Ethiopian Banking Corporate Governance Practices.

1.10 ORGANIZATION OF THE PROJECT PAPER

This project paper has five chapters. The first chapter of the project deals with introduction, objective, scope of the study, significance of the project and limitations. Chapter two covers the literature review part followed by chapter three where research approach and method highlighted. Chapter four focusses on data analysis and discussion so that a summary of findings and recommendations presented on the final fifth chapter.

CHAPTER TWO

LITRATURE REVIEW

In this chapter detailed literature review on historical background, practices and challenges of Corporate Governance will be discussed.

2.1 THE CONCEPT OF CORPORATE GOVERNANCE

In the current global business vocabulary Corporate Governance has become one of the most commonly used phrase. The business dynamism created through emergence of global and international businesses and cross board trades in general pave a way for malpractices and unethical doings that trigger the need for Corporate Governance. Through this malpractices some have advantaged leaving owners in chaos. Even though legal systems, culture and political environment, religious traditions and economic events affect Corporate Governance, historically, businesses ownership structure has been considered as having the strongest influence on corporate governance system. (Solomon, 2017).

Corporate Governance problems kicked-off nearly five centuries ago in the Netherlands in 1622 in the Dutch East Indies Company according to Jong & Roel (2004).

The infamous collapse of Enron in 2001, one of America's largest companies, has caught international attention on company failures and the role that strong Corporate Governance needs to play to prevent them. The collapse of Enron, World.com and Arthur Anderson in America lead to further exploration on advancing Corporate Governance (Adewale, 2013). Since then a number of western countries run to develop own policy statements, Acts, and directives. Likewise, Ethiopia instigates for Corporate Governance reform as evidenced by the proliferation of Corporate Governance policy documents.

The financial crisis the world economy sacrifice with are among the most recent global incident that failure of Corporate Governance resulted. Corporate frauds, power abuse, abnormal top-management remuneration, environmental and social recklessness that lead to corporate failure and collapse, have all been topical in media reports, public forums, academic debates, governmental policy and regulatory agendas, (Sun et al. 2011).

In Ethiopia, businesses have been regulated by the 1960 Commercial code. Specifically, the financial sector is regulated by the Commercial Code, the Banking Business Proclamation no 592/2008 and with specific to Corporate Governance the National Bank of Ethiopia Directives no SBB/71/2019. Of course, having the policy and procedure document alone would not guarantee the existence of Corporate Governance. It has been also a challenge for the supervisory body and owners to trace and totally avoid the top-managements mal-practices and save the company from total damage. Companies are reporting seeming less year-on-year operational losses despite sound and eye-catching strategic plan on shelf, cutting-edge technology and adequate resources on board. The Banking sector in Ethiopia, despite a magnificent contribution for the growth of economy in the country, it has been also a reference point for sophisticated malpractices and grave scandals.

2.2 DEFINITIONS OF CORPORATE GOVERNANCE

Even though there is no standard and acceptable definition of Corporate Governance as per Wajeeh & Muneeza, (2012), it has been accepted as a manner by which organizations are directed and monitored.

It is further dealt with structure and processes for decision-making, accountability, control and behavior at the top of the organization. As per the NBE directive no: SBB/71/2019, Corporate Governance is a process and structure used to direct and manage the business and affairs of a Bank towards enhancing business success and Corporate responsibility with decisive aim of achieving and maximizing shareholders value. Similarly, the OECD principles (2005) defined Corporate Governance as business affairs between an organization top level management, its board member, its owners, and the other stakeholders.

Maximizing shareholders value through proper organizational structure and strategic goals that further extended to ethical way of doing business and good monitoring techniques on board, healthy relationship between management and shareholders founded on clear ground of accountability and transparency is a broad concepts of Corporate Governance.

2.3 THEORETICAL REVIEW

2.3.1 PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Good Corporate Governance is comprised of the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders, such as creditors and employees. It also contributes to financial stability and growth by reinforcement of market confidence, financial market integrity and economic efficiency (OECD, 2004).

According to OECD (2015), Shareholders equitable treatment and right, board chair and CEO, disclosure and transparency, the responsibility of the board members, stakeholders role are the five key Corporate Governance Principles.

As Keyes (2004), elaborated, an effective Corporate Governance framework requires a sound legal, regulatory and institutional foundation, upon which all market participants can rely when they enter into contractual relations as the Governance best practices will positively impact on every company's performance and long-term viability.

Where a good Corporate Governance exists individual stakeholders- investors, creditors, managements and employees as well as the broad industry and economic sectors can get an advantage of it. Banks (2004), supported that by good Corporate Governance stakeholders can be benefited by addressing areas of conflicts of interest. Capitals pulled by investors would get a fair return through elevated firm-wide operating efficiency.

Good Corporate Governance enable firms to achieve optimum conditions for organizations' strategic goal through responsibility with authority. It further backs the organization to attain the shareholders wealth maximization strategy and shareholders value to serve the best interest of the society.

2.3.2 COROPORATE GOVERNANCE PRACTICES

As discussed earlier the practices of Corporate Governance started couple of centuries ago while the serious practices started as early as the recent financial crises. Corporate Governance practices identified by OECD and National Bank of Ethiopia will be highlighted;

2.3.2.1 THE REGULATORY, LEGAL AND ENFORCEMENT OF CORPORATE GOVERNANCE

The level of legal protection in a given country is very critical in determining wellbeing of the economy. OECD (2004) explained the important of legal, regulatory, supervisory, and

enforcement agencies so that Corporate Governance framework will be effective in a company. The necessity of bodies in charge of setting the principles of Corporate Governance in each of the country must of course make sure that there is no conflict between the codes or principles and the existing law of each of the county. The Corporate Governance framework should intern enhance transparency, consistent with rule of law, and there should be division of responsibility for supervisory regulator and enforcement agency in each country in which the firm operate.

According to OECD (2004) principle, the integrity level, the power and the level of resources to handle their duties in a professional and objective manner of those supervisory, regulatory and enforcement authorities are badly important.

In Ethiopian case the National Bank of Ethiopia has been issuing directives for the financial sector to be regulated by. The prevailing directive in the Corporate Governance came with a lot of amendments in such a way that covers important topics. The directive further enforce the industry to have own internal policy and procedure documents to make the control from both external and internal. However, to what level this policy and procedure documents are prepared and implemented is the challenging area for every organization.

The enforcement capacity of the supervisory body is at an alarming danger level for decades due to multiple factors. The first Corporate Governance Directive was issue by the supervisory body as recent as 2015 while the history of corruption and malpractices in the Banking industry were there for decades.

2.3.2.2 EXECUTIVE MANAGEMENT AND BOARD OF DIRECTORS PRACTICES

The responsibility of board members in directing an organization towards its strategic goals is key.

Ethical standards and corporate values need to be established by the Board of Directors for the Bank's top-management and the board itself to address illegal behaviors in the Bank.

The shareholder is in a difficult position. Influencing or monitoring managements cannot be as such easy as they lack access to information and the cost of overcoming these hurdles is considerable.

As shareholders are diffuse, want effective control, and have privileges that entail protection, strong Governance is of paramount prominence. Mechanisms must be created to ensure some type of accountability if investors cannot exercise proper control. The need for framework by which they can oversee and discipline management are hence mandatory. Both internal and external Governance is key to bring control and accountability. Some of the internal Governance are creating unbiased board of directors, establishing appropriate responsibilities and norms within the ranks of executive management, creating code of conduct and developing independent control groups including legal, risk management, internal audit. External Governance usually includes those Governances from the external body who develop and enforce policies and directives.

In theories of management studies the resource-based view (RBV) is one of the most debated and successful (Nason & Wiklund, 2018). Likewise, the level of board members in both education and experience would determine the level of contributions they can make to the organization. According to Minichilli & Hansen (2007) knowledge and skills of the board of directors is recognized as a critical traits to craft strategic issues for an organization. This idea is also supported by Pugliese et al., (2009), boards are legally responsible for the strategy and they are in an excellent position to contribute to strategy”. Different perspective can be brought through board to the planning of strategy, risk diversion and mitigation that potentially leading to fruitful outcomes.

Hillman & Dalziel (2003) also reinforced that board members know-how on competitors’ position, overall industry situation, customers demand and expectation and technology are a prerequisite for board involvement in the strategic decision process. To have a good competitive advantage, boards’ knowledge level is a determinant factor. According to Nahapiet & Ghoshal (1998), board of directors need to have firm-specific knowledge so that they can speak a common business language that can widen strategy related discussion in the board meeting room. Boards’ ability to oversee the overall aspect of an organization from crafting strategy to review of its implementation will have a good reward at end. As Schmidt and Bauer (2006) noted that boards attention in value creation through active engagement in strategic formulation are worthwhile.

The National Bank of Ethiopia, accordingly, stressed on the boards’ educational level during board nomination and selection as a necessary Corporate Governance practices.

The alignment between the board and management in performing the common as well as separate duties are a factor for the achievement of the organization target.

Board of directors can be a competitive advantage through diverse expertise level they can onboard to an organization. Performance and effectiveness of board members shall be assessed and measured. Boards' level of risk management practices, strategic related advices, board dynamisms and pro-active participation, need to be monitored. According to Adriana Andrade et al., (2006), in the book "Corporate Governance - Foundations, Developments and Trends," stressed the necessity of board evaluation and identified to what level should the board be evaluated by including the knowledge based contributions, integrity and process and results. Boards need to give attention on the implementation of policies and strategies they crafted and assess their own achievements and performances in the area of strategic implementation (Brauer and Schmidt, 2008).

It is among the best practice and major board responsibility to engage in top-management succession planning. The NBE demands that boards require the CEO to maintain a current, written succession plan. Meanwhile, its applicability has been in a doubt. According to Stephen, et al., (2017), executive officers' succession planning topic has becoming a vital issue in the area of corporate governance ever. Likewise, Osho & Afolabi (2018) have made a research on Nigerian Banks and came-up with a finding that board of Nigerian banks seem to be reluctant in evaluating their CEO in management development and succession and recommended that instead of waiting until the CEO position is vacant, it is recommendable to groom successors and train.

Board must challenge the top-management against the agreed target. As board member represent the majority of the stakeholders, must appear to be smart enough to trace every achievements, success and failures so that can confront the management.

2.3.2.3 COMPOSITION OF THE BOARD OF DIRECTORS

To scale down the agency cost problems and oversee the managers' performance effectively, board composition is very vital (Choe and Lee, 2003). Board composition needs huge attention during board selection. Moments from nomination to selection, the shareholder should give detail attention to bring the composition of board member to the expected level. The expertise level, educational background, gender and size of board members are critical in determining the

wellbeing of a company. The composition should support the establishment of an environment that is fitting for the important decision-making body to properly exercise its role and add value to the company and all shareholders. The diversity and experience, skills and knowledge, number of directors and the directors' ability to independently challenge the management and provide strategic advice on the outlook of the company are all elements that shape the board's effectiveness.

In Art 14(4) of Ethiopian Banking Business Proclamation, NBE is delegated to decide on the maximum and minimum number of executive director. However, the recent directive issued by the NBE has ignored the involvement of executive director and demand the only non-executive directors.

The NBE Directive No. SBB/71/2019, demand that composition of board member shall focus on size, competence and gender. The size clearly indicated that board members shall not be less than 9 and the core competence level which covers the required educational background shall be more of business disciplines. In this directive members are only allowed from the shareholders unlike the international practices where outside directors can be a board member. There is a strong argument that an outside director is important to bring new expertise to the existing internal board member to help them have informed decision.

With regard to board system, board and top management independence need to be understood as a critical and needed feature. The independence of board members would contribute to avoid potential conflicts and able to act in the best interest of owners.

According to Banks (2004), there are no apparent consensus or empirical evidence on which board structure is more effective or efficient as some believe the single board system allow easy flow of information, good tie and high interrelations between top management and directors; others do believe that due to separation of duties permits greater independence.

It has been an arguable point whether the segregation of the CEO and chairman would end up with better system of Corporate Governance and it is still areas of debate whether or not the board would become a good observer in all direction to increase firm's vale (Abdullah, 2004). Similarly, according to Donaldson and Davies, (1994), in order to reduce agency problems and

attain better corporate performance achievements, splitting the role of chairman and chief executive to make independent decision is vital.

Mulili and Wong, (2011) observed Agency theory from the perspective of companies' business operation in an imperfect information and uncertainty. From the agency theory point of view boards have played crucial role in alleviating agency problems that arise from the separation of ownership and control of firms (O'Connell and Cramer, 2010). Agency problems can arise when owners couldn't monitor the funds availed to managers; owners have difficulty ensuring managers do not squander their wealth on unreliable business practices (Pande & Ansari, 2014). Htay et al., (2012) agreed that agency problem can be reduced by enhancing board independence that can lessen managers' personal benefits.

The agency theory claim that employees or executives in an organization can have self-centric goals (Abdullah & Valentine, 2009), and these can be tackled by the internal checkers. Examiners can check every daily operation that are beyond the scene of the shareholders and owners monitor and follow-ups management activities through thoughtful board of directors.

The composition of board member also helps a company to have diversified pool of talent and expertise in sub-committees. As per the NBE's directive no. SBB/71/2019, a financial institution should have at least three sub-committees that regularly report to the full board. The Risk and compliance sub-committee is responsible for overseeing the management's activity in managing credit, market, liquidity, operational, legal and other risk. The audit sub-committee is responsible to provide independent oversight's of the Bank's financial reporting and internal control system and ensuring checks and balances within the Bank. The human resource affairs sub-committee provides formal and transparent proposal on the employment and removal of senior management members.

The existence of an audit committee secures the monitoring of corporate financial reporting and internal control so as to stimulate good Cooperative Governance and increase companies' financial achievement through management of agency cost (Al-Sa'eed and AlMahamid, 2011). According to Fred R. Kaen (2003), the audit committee gives assurance on the quality of books of account so that shareholders get proper information about the financial wellbeing of the company. Bananuka et al., (2018) also support that corporate governance can be improved through strong internal control mechanism like an effective audit committee and a functioning internal audit.

2.3.2.4 COMPENSATION AND REMUNERATION

Board remuneration including allowances are determined usually by supervisory body. In the context of NBE directive No. SBB/67/2018, payments in cash or in kind to the board member shall be made as per the directive.

2.3.3 OECD PRINCIPLES OF CORPORATE GOVERNANCE

Understanding of the contribution that good Corporate Governance makes to economic growth, investment and financial market stability, member countries of the Organization for Economic Cooperation and Development (OECD) put Governance as one of the priority topic. The first set of OECD principles was developed in 1999. It has since become an international benchmark for policy makers, investors, corporations and other stakeholders' worldwide (Greuning and Brafanoric, 2009).

2.3.3.1 Ensuring the Basis for an Effective Corporate Governance Framework – The Corporate Governance framework is expected to encourage an efficient and transparent markets be consistent with the rule of law and clearly indicate responsibilities among supervisory, regulatory and authorities in enforcement duty.

2.3.3.2 Rights of Shareholders and Key Ownership Functions – The Corporate Governance framework should protect and facilitate the exercise of shareholders' rights. This OECD principle is to protect the rights of shareholders, a crucial issue in the concept of Corporate Governance (Clarke, 2003). Murphy and Topyan (2005), stressed that the most critical aspect of Corporate Governance is to safeguard the minority shareholders who are not active, rather than the large and active shareholders.

2.3.3.3 Equitable Treatment of Shareholders – The Corporate Governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. According to Chhaochharia & Laeven (2009), strong implementation of

Corporate Governance may enhance the corporation's ability to protect the minority shareholders' rights by dwelling on equity treatment.

2.3.3.4 Role of Stakeholders in Corporate Governance – The Corporate Governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active interrelationship among stakeholders and corporations in forming wealth, jobs, and the sustainability of financially sound enterprises.

2.3.3.5 Disclosure and Transparency – The Corporate Governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and Governance of the company. In supporting this idea, Seal, (2006) reflected that information identified as material which includes board of directors and key employees need to be disclosed.

2.3.3.6 Responsibilities of the Board – The Corporate Governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. The board of directors should focus on duties including reviewing and monitoring performance of the corporation, monitoring and selecting of key executives and developing a strategy for setting objectives (Hutchinson & Gul, 2004).

2.4 EMPIRICAL STUDY

Various studies have been conducted in the area of Corporate Governance mostly in comparison with organization performances. However, assessments on Corporate Governance practices and challenges were not done to the level of the necessity. Given the huge concern in the areas of conflict of interests and mal-practices in the business environment, researches, supervisory bodies and investors have been allocating a lot of money to curb the situation.

Hussen (2012), in his Article “Overview of Corporate Governance in Ethiopia” examines law of company in Ethiopia with specific reference to the powers, composition and remuneration of board of directors in light of Corporate Governance principles and best practices and found out that the board should be suitably composed of non-executive and truly independent members who should be professionally competent. However, in the banking industry, on boarding

professionally competent from outside board is prohibited as per the National Bank of Ethiopia Directives.

As per Ngwube (2013), transparency, evaluation of directors, power concentration, open and well implemented conflict of interest policy and adequate disclosures are determinant factors for success of Corporate Governance in an organization.

Though very limited researches were done on board of directors and top management alignment, (Hisham et al., 2017) made a study on seven companies to identify the company's board and top-management alignment and found out that there is a significant existence of alignment between the role of the executives and the board of directors'.

John O. Okpara (2010) examines perspectives on Corporate Governance Challenges in a Sub-Saharan African Economy and revealed that barriers hindering the implementation and promotion of effective Corporate Governance in Nigeria include misuse of inactive shareholders' rights, lack of board commitment, breach of the regulatory framework, poor enforcement and monitoring systems, and absence of transparency and disclosure.

Solomon (2018), in his assessment of Corporate Governance Practices in the Ethiopian Insurance Industry find out that the right of Shareholders and equitable treatment of shareholders were adequately addressed in the Governance practice of the insurance companies. Overall, with some limitations in the importance of insurance associations and executive board of directors; the Governance framework of insurance companies is consistent with the principle.

Fireiwot (2016), did a detailed study on corporate governance effect on Ethiopian commercial banks financial performance by taking a sample of none banks from the existing 18 commercial banks operating in Ethiopia. Using a quantitative and qualitative technics, data collected from a primary and secondary sources were analyzed. Financial performance, ROE was considered as dependent variables and board Members' industry experience, board size, board gender diversity, board members educational qualification, size of audit committee and frequency of board meeting are used as independent variables. The findings of the study revealed that an increase in board size, Audit Committee size and Meeting Frequency would leads to less effective and efficiency and monitoring of the activities of management. However, Board Members Educational Qualification, Industry Specific Experience of Directors and Effect of New

Corporate governance Directive have positively affected financial performance to Ethiopian commercial banks.

Abdullahi (2016), investigated the relationship between the corporate governance mechanisms (CEO tenure, board size and the audit committee size) and return on assets (ROA). Further to this the study used firm size, leverage, bank age and management change as control variables. The research used secondary data obtained from the annual reports of twenty-one (21) banks listed in the Nigeria Stock Exchange for the year 2006 to 2009. Agency theory was taken as a model for the study. The research findings indicates that in Nigerian banks, the relationship between CEO tenure, board size, bank age, management change and ROA is positively significant. In addition to that, the study found that the relationship between audit committee sizes, firm size with ROA is negatively insignificant. Besides providing suggestions for future research work, the study provided several recommendations for regulators and the Nigerian banking industry.

The research findings of Carmen Barroso-Castro (2017) also supported that obtaining a diverse board – with a wide range of skills and knowledge gained from its directors' different backgrounds would favoring its strategic involvement.

CHAPTER THREE

RESEARCH METODOLOGY

This chapter describes the study area, the research design and approach, population of the study, sample size determination, source of data and collection method, method of data analysis, and the measurement of reliability and validity.

3.1 RESEARCH DESIGN

The study focuses on the assessment of Corporate Governance practices and challenges in the case of Cooperative Bank of Oromia using a survey research type by employing descriptive approach. For the fact that the research is merely an assessment type which can't be analyzed based on dependent and independent variables, descriptive statistics was adopted.

3.2 DATA SOURCE

To conduct this project primary and secondary data sources were used. Primary data is obtained from employees of the Bank through distributed questionnaires. The secondary data is obtained from previous study, books, articles, and journals from the internet.

3.3 PROCEDURES OF DATA COLLECTION

Structured questioner was employed to generate the quantitative information relevant to answering the research question. The structured survey questionnaire was prepared in English and distributed in person. The questionnaires were closed-ended and Likert scale measurement was used to determine the level of agreement.

3.4 TARGET POPULATION AND SAMPLING DESIGN

Cooperative Bank of Oromia has 4,158 employees working on permanent basis. From this total number of employees only executive and managerial staff of the Bank were considered for this study as Corporate Governance issues are mainly related and understood by high level management. Hence, of the total 78 executive and managerial staff all are taken as a target population using senses population method. This target population was classified in to the Executive management team (12), the Directors (21) and the Team Managers (45) working from

the Head Office of the Bank. Accordingly, the sample size is equal to the target population because the target population is less than one hundred.

3.5 METHOD OF DATA ANALYSIS

Descriptive statistics such as percentages and frequency tables, mean and standard deviation using Statistical Package for Social Sciences (SPSS) software were used to analyze the data collected and ensure easy and quick interpretation of data.

3.6 SCALE RELIABILITY AND VALIDITY

To prepare the instrument, previous instruments developed by authors like, Solomon (2018), Tesfu (2019) on Corporate Governance were consulted. Further to this various literature reviewed, the NBE directive No. SBB/71/2019 and the OECD principles (2005) was considered to prepare the instrument.

Reliability is the overall consistency of a measure. It is the characteristic of a set of test scores that relates to the amount of random error from the measurement process that might be embedded in the score. For this study the widely used Cronbach's Alpha was used to measure internal reliability for tests with multiple possible answers. Accordingly, the overall Cronbach's Alpha value was 0.848, ranging from .747 to .853 which shows that the items form a scale that has reasonable internal consistency reliability.

The survey questionnaire was prepared based on a 5-point Likert scale. Interpretation of mean scores are done according to Norasmah & Salmah (2011) and Ibrahim et al., (2015) where 1.00–2.00 Low, 2.01–3.00 Moderately Low, 3.01–4.00 Moderately High, and 4.01–5.00 High.

Table 3.1: Cronbach's alpha values

Reliability Statistics

| S.No | Variable of the study | Cronbach's Alpha | N of Items |
|------|--|------------------|------------|
| 1 | Board composition and responsibility | .841 | 17 |
| 2 | Shareholders right | .788 | 10 |
| 3 | Transparency and Disclosures | .747 | 5 |
| 4 | Indicators of effective Corporate Governance | .853 | 15 |
| 5 | Corporate Governance Challenge | .818 | 15 |

Source: survey questionnaire

3.7 ETHICAL CONSIDERATIONS

Ethical obligations were taken in to consideration by the researcher in the course of developing this studies. Consent of all respondents were considered prior to administer the questionnaire and maintain their anonymity. In addition, the researcher ensured the respondent that findings of the study and the use of the information is only meant for academic purposes. Information obtained kept in strict confidentiality by the researcher and findings of the research were presented without any deviation from the outcome of the research.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

In this chapter, data gathered through questionnaire is presented, analyzed and interpreted using percentages, and frequencies with the help of Statistical Package for Social Science (SPSS Version 23). This study attempted to assess the Corporate Governance practices and challenges in the case of Cooperative Bank of Oromia. A total of 78 questionnaires were distributed to middle level, and top-level management staff and 66 (84.6%) questionnaires were found to be valid and were used for further analysis.

4.1 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The demographic characteristics of the respondents (i.e. gender, age group, educational qualification, total years of experience/service year, responsibility and or position) were discussed in the following sections.

Table 4.1 Respondents demographic characteristics

| | | Frequency | Percentage % |
|--|------------------|-----------|--------------|
| 1. What is your gender? | Female | 7 | 10.6% |
| | Male | 59 | 89.4% |
| | Total | 66 | 100.0% |
| 2. What is your age block? | 20-29 | 7 | 10.6% |
| | 30-44 | 49 | 74.2% |
| | 45 and above | 10 | 15.2% |
| | Total | 66 | 100.0% |
| 3. What is the highest level of education you have attained? | Diploma | 2 | 3.0% |
| | Degree | 24 | 36.4% |
| | Masters | 40 | 60.6% |
| | Total | 66 | 100.0% |
| 4. How long have you been working for the Bank? | Less than 1 year | 1 | 1.5% |
| | 1 - 3 years | 5 | 7.6% |
| | 4-6 years | 15 | 22.7% |
| | 7-10 Years | 24 | 36.4% |
| | Above 10 Years | 21 | 31.8% |
| | Total | 66 | 100.0% |

| | | | |
|--------------------------------------|----------------|----|--------|
| 5. Indicate your level of functions? | Team manager | 44 | 66.7% |
| | Director | 15 | 22.7% |
| | Executive team | 7 | 10.6% |
| | Total | 66 | 100.0% |

Source: Researcher own Survey, 2020

The gender distribution of sample respondents, from the total of 66 samples, the majority of respondents were males. It is to mean that 59 (89.4%) of total respondents were male and 7(10.6%) were female respondents. Moreover, the majority of ages block of the respondents were in 30-44 accounted for 49(74.2%) followed by 45 and above which is 10(15.2%) and the rest 7(10.6%) found to be in 20-29 age block.

Regarding the respondents work experience as shown in the table above 4.2 the majority 36.4% of the respondents had 7-10 years of working experience whereas, 31.8% of the respondents had above 10 years of working experience, the remaining groups from 4-6 years, 1-3 years and below one year were accounted for 22.7%, 7.6% and 1.5% respectively.

Finally, level of job position of the respondents were also depicted in the table above that showed majority are categorized under the “Team management” level accounted for 44(66.7%) followed by, “Director” which is 15(22.7%) and “Executive team” 7(10.6%).

Generally, respondents’ demography can show a considerable amount of expertise level was included for the study in providing valuable information. The majority employees working experience in the Bank, level of involvement of the senior management and level of education were believed to be high importance in strengthening this study.

4.2 CORPORATE GOVERNANCE PRACTICES AND CHALLENGES

Under this section respondents were asked to indicate their level of agreement with the question relates to Corporate Governance practices and challenges using likert scale which ranged from strongly agree to strongly disagree. Accordingly, analysis using mean and standard deviation was conducted in all types of question provided to the respondents.

4.2.1 GOVERNANCE PRACTICES—*BOD composition and responsibilities*

TABLE 4.2 Corporate Governance practices.

| CG Practices | | SD | D | N | A | SA | Mean | SD |
|---|------------|-------|-------|-------|-------|------|------|-------|
| Board members possess the required knowledge and skills to perform their oversight roles | Frequency | 5 | 23 | 16 | 21 | 1 | 2.85 | 1.01 |
| | Percentage | 7.6% | 34.8% | 24.2% | 31.8% | 1.5% | | |
| Board members provides mutual support and monitor the operations of the company | Frequency | 0 | 23 | 21 | 18 | 4 | 3.05 | 0.935 |
| | Percentage | 0.0% | 34.8% | 31.8% | 27.3% | 6.1% | | |
| Board members have the capability of assessing monetary and financial documents | Frequency | 3 | 26 | 26 | 11 | 0 | 2.68 | 0.807 |
| | Percentage | 4.5% | 39.4% | 39.4% | 16.7% | 0.0% | | |
| Board members have the capacity to approve police documents | Frequency | 1 | 12 | 21 | 31 | 1 | 3.29 | 0.837 |
| | Percentage | 1.5% | 18.2% | 31.8% | 47.0% | 1.5% | | |
| BOD used to feel responsible and devote sufficient time to carry out their responsibilities | Frequency | 3 | 17 | 20 | 24 | 2 | 3.08 | 0.966 |
| | Percentage | 4.5% | 25.8% | 30.3% | 36.4% | 3.0% | | |
| BOD considers fiduciary and stewardship responsibilities in discussions and decision making | Frequency | 1 | 17 | 17 | 27 | 4 | 3.24 | 0.962 |
| | Percentage | 1.5% | 25.8% | 25.8% | 40.9% | 6.1% | | |
| BOD responsible and take into account stakeholder interests in decisions and actions | Frequency | 1 | 5 | 22 | 35 | 3 | 3.52 | 0.769 |
| | Percentage | 1.5% | 7.6% | 33.3% | 53.0% | 4.5% | | |
| BOD responsible and take into account stakeholder interests in decisions and actions | Frequency | 1 | 5 | 22 | 35 | 3 | 3.52 | 0.769 |
| | Percentage | 1.5% | 7.6% | 33.3% | 53.0% | 4.5% | | |
| The Board formulates long term strategy of the organization | Frequency | 7 | 7 | 22 | 27 | 3 | 3.18 | 1.035 |
| | Percentage | 10.6% | 10.6% | 33.3% | 40.9% | 4.5% | | |
| The board defines and communicate to | Frequency | 7 | 6 | 20 | 31 | 2 | 3.23 | 1.035 |

| | | | | | | | | |
|---|------------|-------|-------|-------|-------|-------|------|-------|
| management their powers, roles and responsibilities | Percentage | 10.6% | 9.1% | 30.3% | 47.0% | 3.0% | | |
| The board knows the organization's beliefs, values, mission and vision | Frequency | 0 | 7 | 20 | 38 | 1 | 3.5 | 0.707 |
| | Percentage | 0.0% | 10.6% | 30.3% | 57.6% | 1.5% | | |
| The board approves proposals from the management after thorough scrutiny, debate and analysis | Frequency | 0 | 4 | 23 | 36 | 3 | 3.58 | 0.681 |
| | Percentage | 0.0% | 6.1% | 34.8% | 54.5% | 4.5% | | |
| The board selects and reviews the performance of the CEO and other executive members and determines remunerations | Frequency | 0 | 5 | 13 | 39 | 9 | 3.79 | 0.775 |
| | Percentage | 0.0% | 7.6% | 19.7% | 59.1% | 13.6% | | |
| Training and Induction of Board members is undertaken regularly | Frequency | 2 | 8 | 21 | 28 | 7 | 3.45 | 0.948 |
| | Percentage | 3.0% | 12.1% | 31.8% | 42.4% | 10.6% | | |
| The board established code of conduct for the employee of the Bank | Frequency | 1 | 15 | 23 | 25 | 2 | 3.18 | 0.875 |
| | Percentage | 15.0% | 22.7% | 34.8% | 37.9% | 3.0% | | |
| The board knows and insures establishment of MIS in the Bank | Frequency | 0 | 16 | 27 | 20 | 3 | 3.15 | 0.846 |
| | Percentage | | 24.2% | 40.9% | 30.3% | 4.5% | | |
| Assess semi-annually the effectiveness of the board | Frequency | 6 | 26 | 22 | 10 | 2 | 2.64 | 0.955 |
| | Percentage | 9.1% | 39.4% | 33.3% | 15.2% | 3.0% | | |
| In place succession plan for the executive team | Frequency | 11 | 24 | 18 | 9 | 4 | 2.56 | 1.111 |
| | Percentage | 16.7% | 36.4% | 27.3% | 13.6% | 6.1% | | |
| Total N= 66, Aggregated mean(μ)= 3.1735 , S.D = 0.482 | | | | | | | | |

Table source; Research own survey, 2020

As clearly shown in the table above that the Corporate Governance practices identified were being applied in the Bank with the highest mean of 3.79 which is board's performance review for the CEO and other executive members, and the lowest mean of 2.56—Executive team succession plan. Nonetheless, some principles were being practiced below expectation level. Executive management succession plan with moderately lower mean value of 2.56, Semi-annual board assessment with moderately lower mean value of 2.64, Boards capability of assessing monetary

and financial data and knowledge were areas of Corporate Governance principle responded below mean value 3 which was categorized under moderately low.

4.2.2 CORPORATE GOVERNANCE—SHAREHOLDERS RIGHT

TABLE: 4.3 Corporate Governance practices—shareholder right

| Shareholders right | | SD | D | N | A | SA | Mean | SD |
|--|------------|-------|--------|--------|--------|--------|------|-------|
| All shareholders are informed using well-circulated media about the general meetings | Frequency | 0 | 1 | 2 | 35 | 28 | 4.36 | 0.624 |
| | Percentage | 0.0% | 1.5% | 3.0% | 53.0% | 42.4% | | |
| Non-influential shareholders right exercised | Frequency | 0 | 1 | 8 | 34 | 23 | 4.2 | 0.706 |
| | Percentage | 0.0% | 1.5% | 12.1% | 51.5% | 34.8% | | |
| Shareholders priority subscription right protected | Frequency | 0 | 1 | 4 | 38 | 23 | 4.26 | 0.64 |
| | Percentage | 0.0% | 1.5% | 6.1% | 57.6% | 34.8% | | |
| Candidates disclosed by nomination committee before the shareholders meeting | Frequency | 0 | 2 | 1 | 38 | 25 | 4.3 | 0.656 |
| | Percentage | 0.0% | 3.0% | 1.5% | 57.6% | 37.9% | | |
| Voting by proxy allowed | Frequency | 4 | 5 | 17 | 28 | 12 | 3.59 | 1.067 |
| | Percentage | 6.1% | 7.6% | 25.8% | 42.4% | 18.2% | | |
| The board members include from non-influential shareholder | Frequency | 1 | 2 | 5 | 34 | 24 | 4.18 | 0.821 |
| | Percentage | 1.5% | 3.0% | 7.6% | 51.5% | 36.4% | | |
| The recruitment of the external auditor approved on general meeting? | Frequency | 1 | 0 | 4 | 26 | 35 | 4.42 | 0.745 |
| | Percentage | 1.50% | 0.00% | 6.10% | 39.40% | 53.00% | | |
| The board remuneration approved by the general meeting? | Frequency | 1 | 0 | 4 | 30 | 31 | 4.36 | 0.737 |
| | Percentage | 1.50% | 0.00% | 6.10% | 45.50% | 47.00% | | |
| The number of meeting attendance taken in to consideration while remuneration payment is effected? | Frequency | 1 | 3 | 9 | 29 | 24 | 4.09 | 0.907 |
| | Percentage | 1.50% | 4.50% | 13.60% | 43.90% | 36.40% | | |
| All shareholders issued a shareholding certificates | Frequency | 6 | 9 | 14 | 25 | 12 | 3.42 | 1.203 |
| | Percentage | 9.10% | 13.60% | 21.20% | 37.90% | 18.20% | | |
| Total N= 66, Aggregated mean(μ)= 4.11 , S.D = 0.488 | | | | | | | | |

Table source; Research own survey, 2020

From the table above we can see that the greatest mean corresponds for the item stating “The recruitment of the external auditor approved on general meeting” with a mean value of 4.42 and the minimum mean value for the question saying “All shareholders issued share certificates” with a mean value of 3.42. Moreover, except two questions, which are under moderately high, the rest ten has a mean value of above 4.1, High, which shows the interest and right of the shareholders were identified to be as per the required principles.

4.2.3 CORPORATE GOVERNANCE—*Transparency and Disclosure*

Table:4.4 Corporate Governance practices—Transparency and Disclosure

| Disclosure and Transparency | | SD | D | N | A | SA | Mean | SD |
|--|------------|-----------|----------|----------|----------|-----------|-------------|-----------|
| The board and management members are transparent to stakeholders | Frequency | 0 | 4 | 17 | 35 | 10 | 3.77 | 0.78 |
| | Percentage | 0.00% | 6.10% | 25.80% | 53.00% | 15.20% | | |
| All material natures are being reported including related party, fixed asset, technology | Frequency | 0 | 1 | 5 | 51 | 9 | 4.03 | 0.525 |
| | Percentage | 0.00% | 1.50% | 7.60% | 77.30% | 13.60% | | |
| Disclose the organizational structure, board member profile on website of the Bank | Frequency | 0 | 2 | 8 | 35 | 21 | 4.14 | 0.742 |
| | Percentage | 0.00% | 3.00% | 12.10% | 53.00% | 31.80% | | |
| The company’s financial statement are authenticated by legal bodies | Frequency | 0 | 1 | 2 | 30 | 33 | 4.44 | 0.636 |
| | Percentage | 0.00% | 1.50% | 3.00% | 45.50% | 50.00% | | |
| Audited financial reports are posted on newspaper within one month after the general meeting | Frequency | 0 | 3 | 5 | 32 | 26 | 4.23 | 0.78 |
| | Percentage | 0.00% | 4.50% | 7.60% | 48.50% | 39.40% | | |
| Total N= 66, Aggregated mean(μ)= 4.12 , S.D = 0.494 | | | | | | | | |

Table source; Research own survey, 2020

As table 4.4 shows regarding to Transparency and Disclosure practices, majority of respondents were accepting that these Corporate Governance principles are being practiced in the Bank. With highest mean of 4.44 and lowest mean of 3.77 respondents confirmed that the Bank is transparent and disclose information as deemed necessary. From the highest mean, respondents were asked “whether the Bank’s financial statement are authenticated by legal bodies” and most of respondents 33(50%) and 30(45.5%) were strongly agreed and agree respectively.

4.2.4 CORPORATE GOVERNANCE—*Corporate Governance indicators*

TABLE 4:5 Indicator of Corporate Governance practices

| <i>Corporate Governance indicators</i> | | SD | D | N | A | SA | Mean | SD |
|--|------------|-------|-------|--------|--------|--------|------|------|
| Board members selection practices | Frequency | 0 | 3 | 13 | 48 | 2 | 3.74 | 0.59 |
| | Percentage | 0.00% | 4.50% | 19.70% | 72.70% | 3.00% | | |
| Board allowance and remuneration pay | Frequency | 5 | 0 | 7 | 43 | 11 | 3.83 | 0.97 |
| | Percentage | 7.60% | 0.00% | 10.60% | 65.20% | 16.70% | | |
| Board regular meeting schedule | Frequency | 3 | 2 | 11 | 43 | 7 | 3.74 | 0.87 |
| | Percentage | 4.50% | 3.00% | 16.70% | 65.20% | 10.60% | | |
| The board integrity | Frequency | 1 | 0 | 19 | 39 | 7 | 3.77 | 0.7 |
| | Percentage | 1.50% | 0.00% | 28.80% | 59.10% | 10.60% | | |
| The board commitment | Frequency | 0 | 2 | 20 | 39 | 5 | 3.71 | 0.65 |
| | Percentage | 0.00% | 3.00% | 30.30% | 59.10% | 7.60% | | |
| The Banks strategic planning and long term direction | Frequency | 1 | 4 | 7 | 43 | 11 | 3.89 | 0.81 |
| | Percentage | 1.50% | 6.10% | 10.60% | 65.20% | 16.70% | | |
| The organization culture | Frequency | 1 | 0 | 14 | 41 | 10 | 3.89 | 0.7 |
| | Percentage | 1.50% | 0.00% | 21.20% | 62.10% | 15.20% | | |
| Accountability and transparency | Frequency | 0 | 3 | 5 | 48 | 10 | 3.98 | 0.64 |
| | Percentage | 0.00% | 4.50% | 7.60% | 72.70% | 15.20% | | |
| Participatory decision making | Frequency | 1 | 1 | 12 | 42 | 10 | 3.89 | 0.73 |
| | Percentage | 1.50% | 1.50% | 18.20% | 63.60% | 15.20% | | |
| Availability of board sub-committee and their efficiency | Frequency | 0 | 5 | 19 | 33 | 9 | 3.7 | 0.8 |
| | Percentage | 0.00% | 7.60% | 28.80% | 50.00% | 13.60% | | |

| | | | | | | | | |
|--|------------|-------|--------|--------|--------|--------|------|------|
| Succession plan is in place for the executive management | Frequency | 2 | 12 | 21 | 23 | 8 | 3.35 | 1.02 |
| | Percentage | 3.00% | 18.20% | 31.80% | 34.80% | 12.10% | | |
| Executive management selections is done by the involvement of the board | Frequency | 4 | 4 | 9 | 38 | 11 | 3.73 | 1.02 |
| | Percentage | 6.10% | 6.10% | 13.60% | 57.60% | 16.70% | | |
| A free and fair atmosphere for a board to undertake activities | Frequency | 1 | 3 | 21 | 35 | 6 | 3.64 | 0.78 |
| | Percentage | 1.50% | 4.50% | 31.80% | 53.00% | 9.10% | | |
| When appointing board member, there is gender balance | Frequency | 2 | 10 | 29 | 22 | 3 | 3.21 | 0.87 |
| | Percentage | 3.00% | 15.20% | 43.90% | 33.30% | 4.50% | | |
| During board formation, representation from all stakeholders is considered | Frequency | 1 | 2 | 14 | 33 | 16 | 3.92 | 0.85 |
| | Percentage | 1.50% | 3.00% | 21.20% | 50.00% | 24.20% | | |
| Total N= 66, Aggregated mean(μ)= 3.73 , S.D = 0.46 | | | | | | | | |

Table source; Research own survey, 2020

The table depicts that the majority of the respondents were agreed there is above moderate Corporate Governance principles practices in the Bank. Most of the mean value tells that the practices are there but the degree of its implementation varies. Majority, 49 (74.2%), responded that upon board formation representative from all shareholders were considered. In addition, management selection practices of the Bank were rated above moderate, 49 (74.2%). Gender balance while appointing board members had relatively lower mean, 3.21 compared to other practices of Corporate Governance principles as per the respondents' reaction.

From this it can be said that respondents were agreed to the existence of the practice in a different degree of application that signals for some bottlenecks for full implementation of the Corporate Governance Principles as per the supervisory body requirement. The next assessment would clearly identify where the challenges, and bottlenecks.

4.2.5 CORPORATE GOVERNANCE—Challenges

TABLE: 4.6 Corporate Governance challenges

| Corporate Governance challenges | | SD | D | N | A | SA | Mean | SD |
|--|------------|------|-------|-------|-------|-------|------|-------|
| Lack of independence/conflicts of interest | Frequency | 3 | 26 | 26 | 11 | | 2.68 | 0.807 |
| | Percentage | 4.5% | 39.4% | 39.4% | 16.7% | | | |
| Lack of board capability | Frequency | 1 | 7 | 5 | 49 | 4 | 3.74 | 0.795 |
| | Percentage | 1.5% | 10.6% | 7.6% | 74.2% | 6.1% | | |
| Unwillingness to challenge | Frequency | 1 | 8 | 7 | 42 | 8 | 3.73 | 0.887 |
| | Percentage | 1.5% | 12.1% | 10.6% | 63.6% | 12.1% | | |
| Unwillingness to bear responsibility | Frequency | 1 | 26 | 22 | 16 | 1 | 2.85 | 0.864 |
| | Percentage | 1.5% | 39.4% | 33.3% | 24.2% | 1.5% | | |
| Knowledge gaps (Diversity) | Frequency | 0 | 7 | 12 | 18 | 29 | 4.05 | 1.029 |
| | Percentage | 0.0% | 10.6% | 18.2% | 27.3% | 43.9% | | |
| Excessive commitments | Frequency | 6 | 19 | 28 | 12 | 1 | 2.74 | 0.917 |
| | Percentage | 9.1% | 28.8% | 42.4% | 18.2% | 1.5% | | |
| Insufficient focus on substantive issues | Frequency | 1 | 10 | 9 | 33 | 13 | 3.71 | 1.004 |
| | Percentage | 1.5% | 15.2% | 13.6% | 50.0% | 19.7% | | |
| Lack of alignment between board and management | Frequency | 1 | 8 | 5 | 29 | 23 | 4 | 1.03 |
| | Percentage | 1.5% | 12.1% | 7.6% | 43.9% | 34.8% | | |
| Excessive board size | Frequency | 4 | 19 | 27 | 12 | 4 | 2.89 | 0.979 |
| | Percentage | 6.1% | 28.8% | 40.9% | 18.2% | 6.1% | | |
| Unclear strategy | Frequency | 4 | 28 | 22 | 10 | 2 | 2.67 | 0.917 |
| | Percentage | 6.1% | 42.4% | 33.3% | 15.2% | 3% | | |
| Misallocated resources | Frequency | 1 | 26 | 15 | 20 | 3 | 2.94 | 1.006 |
| | Percentage | 3.0% | 39.4% | 22.7% | 30.3% | 4.5% | | |
| Excessive short-term focus | Frequency | 2 | 22 | 28 | 14 | | 2.82 | 0.802 |
| | Percentage | 3.0% | 33.3% | 42.4% | 21.2% | | | |
| Opaque disclosure | Frequency | 1 | 27 | 22 | 14 | 2 | 2.85 | 0.887 |
| | Percentage | 1.5% | 40.9% | 33.3% | 21.2% | 3.1% | | |
| Unethical behavior | Frequency | 4 | 28 | 21 | 11 | 2 | 2.68 | 0.93 |
| | Percentage | 6.1% | 42.4% | 31.4% | 16.7% | 3.1% | | |
| Improper Corporate control defenses | Frequency | 3 | 21 | 20 | 20 | 2 | 2.95 | 0.968 |
| | Percentage | 4.5% | 31.8% | 30.3% | 30.3% | 3.1% | | |
| Total N= 66, Aggregated mean(μ)= 3.15, S.D = 0.490 | | | | | | | | |

Table source; Research own survey, 2020

In the table above respondents were indicated where the practices of Corporate Governance principles become a challenge for the Bank ranging from the highest mean of 4.05 to the lowest mean of 2.67. From each Corporate Governance principles provided above, respondents reflection on the Bank’s challenge to practice those principles from top to down in terms of mean score were, “Board of directors’ knowledge gap—Diversity” mean score (4.05), “Lack of alignment between board and management” mean score (4.00), “lack of Capability” mean score (3.74), “Unwilling to challenge” mean score (3.73), and “Insufficient focus on substantive issues” mean score (3.71).

When further explained, the knowledge gap with a mean score 4.05 shows that most of respondents a total of 47 (71.2%) agreed that the knowledge gap—diversity is the highest in terms of challenge for the Bank. 52 (78.7%) respondents agreed that Lack of alignment between board and management is among a challenge classified as moderately high with a mean score of 4.0. In addition, a total of 53 (80.3%) supported that lack of board capability is one of the challenging principle to be practiced in the Bank with mean score of 3.74, interpreted as moderately high.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The purpose of this study was to assess Corporate Governance practices and challenges in the case of Cooperative Bank of Oromia. In this chapter findings of the study highlighted in previous chapters will be summarized, concluded and recommended. The first section dwells on both the summary of findings on practices of Corporate Governance and challenges of Corporate Governance. The second section concludes both the practices and challenges of Corporate Governance discussed in the previous chapter. The section that follow are recommendations for further researches and implications for policy and practices.

5.1 SUMMARY OF FINDINGS

A structured questionnaire was sent out to 78 sampled management staff of Cooperative Bank of Oromia working from Head Office and 66 questionnaires were managed to be collected. A significant number of respondents had accumulated experience of 7-10 years in the Bank. Majority (74.2%) of the respondents belonged to 30-44 years age group and the highest level of education possessed by the majority of the respondents was Master's Degree level.

Literature reviewed explored the meanings of Corporate Governance, the definition of terms and the relevance of Corporate Governance to organizations. In addition, acceptable Corporate Governance practices as per OECD and the National Bank of Ethiopia directives were employed to assess the Bank's level of Corporate Governance practices and the challenges the Bank had in practicing these principles.

Data was analyzed using statistical methods (SPSS Version 23) where frequencies, mean and percentages were used to arrive at some inferences. Data was presented in a tabular means to bring out the findings.

The questionnaires main focus was to identify practicability of Corporate Governance principles in the Bank and any challenges the Bank had had in practicing the principles.

5.1.1 Findings—*Corporate Governance Practices*

The general findings from the assessment of the current practices of Corporate Governance in Cooperative Bank of Oromia in comparison to the given OECD principles and NBE directives showed that despite a challenge in the degree of applying the principles were being applied at the Bank. Some of the indicators as clearly stated in the previous chapter are shareholders right principles. For almost all questions provided under these principles, respondents have agreed that shareholders right are being applied. Furthermore, “transparency and disclosure” related questions provided to the respondents have got the highest mean value each above 4. This indicated that the Bank had been transparent to its stakeholders and disclose all material issues as deemed necessary.

To answer indicators of effective Corporate Governance principle in the Bank, respondents had reflected on each question from moderate to a very great extent. Despite the fact that the degree of applying the principles vary, respondents agreed that there are an indicators of Corporate Governance Principles being practiced. However, moderately low mean score observed from the assessment made was 2.56 for Semi-annual board assessment, 2.64 for Executive succession plan, 2.68 for Boards capability of assessing monetary and financial data, and 2.85 for Board members possess the required knowledge and skills to perform their oversight roles.

5.1.2 Findings—*Corporate Governance Challenges*

The last part of the questionnaire discussed on the challenges for the Bank while applying the Corporate Governance principles compared to the NBE’s directive and OECD principles. Respondents agreed that there are challenges in applying the principles, Board’s knowledge gap—diversity, 71.2%, lack of alignment, 78.7%, lack of capability, 80.3%, unwilling to challenge, 75.7% and Insufficient focus on substantive issues, 69.7% are the major findings.

5.2 CONCLUSION

The study attempted to assess the Corporate Governance practice and challenges in the case of Cooperative Bank of Oromia, and made evaluation of the practice against National Bank of Ethiopia Directive and OECD principles. In due course of the study, research questions had well covered to come up with the results of the findings that follow conclusions are recommendations.

The findings summarized that the Bank has been practicing majority of the Corporate Governance principles except, Executive management succession plan, and Semi-annual board assessment. It was also identified in this study that the Bank is not fully practicing the Corporate Governance principles due to, Directors' knowledge gap, directors' capability problem, lack of alignment between board and management, boards' unwillingness to challenge the management, and boards' insufficient focus on substantive issues, which is among the identified challenges.

5.3 RECOMMENDATIONS

Corporate Governance is all about directing and managing a company through structured rules, practices and processes. The application of these rules, practices and processes are depend on the internal and external enforcement capability. From the findings summarized and concluded above, the following recommendations were forwarded,

5.3.1 Recommendations—*Corporate Governance practices*

Though majority of the Corporate Governance principles of the National Bank of Ethiopia and OECD implemented in the Bank, Executive management succession plan, and Semi-annual board assessment was not implemented. In addition, there is an indicator that Boards' know-how, skill and capacity level are below expectation which reflects board selection practices are in question. Hence, the Bank's top management and board members shall put in place the practices of management succession plan and semi-annual board assessment. In addition, board selection practice need to get more focus to onboard skilful and talented members to the squad.

5.3.2 Recommendations—*Practices of Corporate Governance challenges*

One of the identified challenge in practicing the Corporate Governance principles in the Bank was directors' knowledge gap—diversity. As most of the board members are from different educational background and expertise, the know-how gap should be filled through structured way of trainings and experience sharing. In addition to this, to protect the Bank from severe damage due to lack of knowledge of the board member, increasing the knowledge and independence of internal risk and compliance team as well as strengthening the internal control system would help to protect the Bank from damage.

Other challenge identified was board capability issue which helps to interpret knowledge into practice. Prior knowledge in similar industry is a key to make informed decision, make unique strategic and implement cutting-edge technology. Hence, the Bank should strategies how the board member can fully deliver up to the expectation level of the stockholder by increasing their level of expertise.

Lack of alignment between board and management was also identified as a challenge. This was mainly due to unequal understanding of the goal, mission and vision of the Bank between the boards and management. Board members term is limited to three years as per NBE directives and reelection is a bit difficult. However, Bank's strategy is crafted at minimum for five solid years. This brought a huge challenge for the board to easily understand the strategy as they are usually elected at mid of strategic period. Hence, once the board members are elected continuous strategy related workshop shall be facilitated to bring them to the level they can provide valuable decisions.

In order to strategically adapt to the dynamic environment, firms should develop capabilities to align, build, and reconfigure their unique resources and competences (Eisenhardt & Martin, 2000)

Other findings from the study was "boards' unwilling to challenge the management. There should be a practice of reviewing management's performance and challenge for further delivery. Board should regularly monitor and assess key performance indicators developed to implement strategic goals of the Bank. The policy and procedure documents approved by the board needs to be implemented accordingly so that the overall strategic goal can be achieved.

"Boards' insufficient focus on substantive issues" was one of the challenges identified during the study. It is very clear that Bank has an overall strategy of maximizing shareholders values. These values are a result of high market share, high ROA, high EPS and overall the brand aspect of the organization. Hence, the Bank's board should reconsider their focus areas like, strategy aspects, human capital, technology, risk and compliance and capital building.

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Addis Ababa University
College of Business and Economics
School of Commerce

Questionnaire

Dear respondents,

This study is being conducted in partial fulfilment to the requirements of the Master's Program in Business Leadership at the Addis Ababa University, School of Commerce. The study aims to assess the Corporate Governance practices and challenges: The case of Cooperative Bank of Oromia S.C.

As part of the research, survey questionnaire is planned to be administered to a member of Senior-Executives, Directors and Team managers of the Bank. Since you are one of the selected representatives of the organization, you are earnestly requested to participate in the study by responding to the survey questionnaire. This questionnaire is prepared only for the purpose of gathering information to assess the Corporate Governance practices and challenges of the Bank. It is assured that the data furnished and the identity of the respondents will be kept strictly confidential to the researcher and will only be used for meeting the study objectives.

Thank you for your time

Gadissa Mamo (email—gadissa.mamo@gmail.com 0910663593

SECTION I: General Information (Please tick in the appropriate option)

1. What is your gender?

Female (1)

Male (2)

2. What is your age block?

| | | |
|--------------|--------------|---------------------|
| 20-29 | 30-44 | 45 and above |
| | | |

3. What is the highest level of education you have attained?

| | | | |
|----------------|---------------|----------------|------------|
| Diploma | Degree | Masters | PhD |
| | | | |

4. How long have you been working for the Bank?

| | | | | |
|-------------------------|------------------|------------------|-------------------|-----------------------|
| Less than 1 year | 1—3 years | 4—6 years | 7—10 years | Above 10 years |
| | | | | |

5. Indicate your level of functions?

| | | |
|---------------------|-----------------|-----------------------|
| Team manager | Director | Executive team |
| | | |

SECTION II: Corporate Governance practices. Please kindly answer the following questions by indicating your choice on the scale of **1– 5**, **1=Strongly Disagree**, **2=Disagree**, **3=Neutral**, **4=Agree**, **5=Strongly Agree**.

Please use ✓ to indicate your choice;

| S.No | Board Competences and Responsibilities | 1 | 2 | 3 | 4 | 5 |
|-------------|---|----------|----------|----------|----------|----------|
| 1 | Board members possess the required knowledge and skills to perform their oversight roles | | | | | |
| 2 | Board members provides mutual support and monitor the operations of the company | | | | | |
| 3 | Board members have the capability of assessing monetary and financial documents | | | | | |
| 4 | Board members have the capacity to approve police documents | | | | | |
| 5 | BOD used to feel responsible and devote sufficient time to carry out their responsibilities | | | | | |
| 6 | BOD considers fiduciary and stewardship responsibilities in discussions and decision making | | | | | |
| 7 | BOD responsible and take into account stakeholder interests in decisions and actions | | | | | |
| 8 | The Board formulates long term strategy of the organization | | | | | |
| 9 | The board defines and communicate to management their powers, roles and responsibilities | | | | | |
| 10 | The board knows the organization's beliefs, values, mission and vision | | | | | |
| 11 | The board approves proposals from the management after thorough scrutiny, debate and analysis | | | | | |
| 12 | The board selects and reviews the performance of the CEO and other executive members and determines remunerations | | | | | |
| 13 | Training and Induction of Board members is undertaken regularly | | | | | |

| | | | | | | |
|----|--|--|--|--|--|--|
| 14 | The board established code of conduct for the employee of the Bank | | | | | |
| 15 | The board knows and insures establishment of MIS in the Bank | | | | | |
| 16 | Assess semi-annually the effectiveness of the board | | | | | |
| 17 | In place succession plan for the executive team | | | | | |

SECTION III: Corporate Governance practices: Please indicate your choice on the scale of 1 – 5, **1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4= Agree, 5 = Strongly Agree**

Please use √ to indicate your choice;

| S.No | Shareholders right | 1 | 2 | 3 | 4 | 5 |
|------|--|---|---|---|---|---|
| 1 | All shareholders are informed using well-circulated media about the general meetings | | | | | |
| 2 | Non-influential shareholders right exercised | | | | | |
| 3 | Shareholders priority subscription right protected | | | | | |
| 4 | Candidates disclosed by nomination committee before the shareholders meeting | | | | | |
| 5 | Voting by proxy allowed | | | | | |
| 6 | The board members include from non-influential shareholder | | | | | |
| 7 | The recruitment of the external auditor approved on general meeting? | | | | | |
| 8 | The board remuneration approved by the general meeting? | | | | | |
| 9 | The number of meeting attendance taken in to consideration while remuneration payment is effected? | | | | | |
| 10 | All shareholders issued a shareholding certificates | | | | | |

SECTION IV: Corporate Governance practices: Please indicate your choice on the scale of 1 – 5, **1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4= Agree, 5 = Strongly Agree**

Please use √ to indicate your choice;

| S.No | Transparency and Disclosures | 1 | 2 | 3 | 4 | 5 |
|------|--|---|---|---|---|---|
| 1 | The board and management members are transparent to stakeholders | | | | | |
| 2 | All material natures are being reported including related party, fixed asset, technology | | | | | |
| 3 | Disclose the organizational structure, board member profile on website of the Bank | | | | | |
| 4 | The company's financial statement are authenticated by legal bodies | | | | | |
| 5 | Audited financial reports are posted on newspaper within one month after the general meeting | | | | | |

SECTION V: Indicators of effective Corporate Governance practices: Use the scale provided to answer this question: where **1= Not at all, 2 = to a little extent, 3 = to a moderate extent, 4 = to a great extent, 5 =to a very great extent.**

Please use √ to indicate your choice;

| S.No | To what extent can you attribute Corporate Governance practices in your organization to the given factors | 1 | 2 | 3 | 4 | 5 |
|------|---|---|---|---|---|---|
| 1 | Board members selection practices | | | | | |
| 2 | Board allowance and remuneration pay | | | | | |
| 3 | Board regular meeting schedule | | | | | |

| | | | | | | |
|----|--|--|--|--|--|--|
| 4 | The board integrity | | | | | |
| 5 | The board commitment | | | | | |
| 6 | The Banks strategic planning and long term direction | | | | | |
| 7 | The organization culture | | | | | |
| 8 | Accountability and transparency | | | | | |
| 9 | Participatory decision making | | | | | |
| 10 | Availability of board sub-committee and their efficiency | | | | | |
| 11 | Succession plan is in place for the executive management | | | | | |
| 12 | Executive management selections is done by the involvement of the board | | | | | |
| 13 | A free and fair atmosphere for a board to undertake activities | | | | | |
| 14 | When appointing board member, there is gender balance | | | | | |
| 15 | During board formation, representation from all stakeholders is considered | | | | | |

SECTION VI: Corporate Governance challenges: Please indicate your choice on the scale of 1 – 5, 1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4= Agree, 5 = Strongly Agree
Please use √ to indicate your choice;

| S.No | In your understanding what would be the main challenge for implementing Corporate Governance principles. | 1 | 2 | 3 | 4 | 5 |
|------|--|---|---|---|---|---|
| 1 | Lack of independence/conflicts of interest | | | | | |
| 2 | Lack of capability | | | | | |
| 3 | Unwillingness to challenge | | | | | |
| 4 | Unwillingness to bear responsibility | | | | | |
| 5 | Knowledge gaps—diversity | | | | | |
| 6 | Excessive commitments | | | | | |
| 7 | Insufficient focus on substantive issues | | | | | |
| 8 | Lack of alignment between Management and board | | | | | |
| 9 | Excessive board size | | | | | |
| 10 | Unclear strategy | | | | | |
| 11 | Misallocated resources | | | | | |
| 12 | Excessive short-term focus | | | | | |
| 13 | Opaque disclosure | | | | | |
| 14 | Unethical behavior | | | | | |
| 15 | Improper Corporate control defenses | | | | | |