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# The Effects of corporate governance characteristics on financial Performance:

## A Study on selected private Commercial Banks in Ethiopia

A Thesis Submitted to Research and Postgraduate Studies' Office of Business and Economics College, in Partial Fulfillments for the Award of Masters of Science in Accounting and Finance

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## *Abstract*

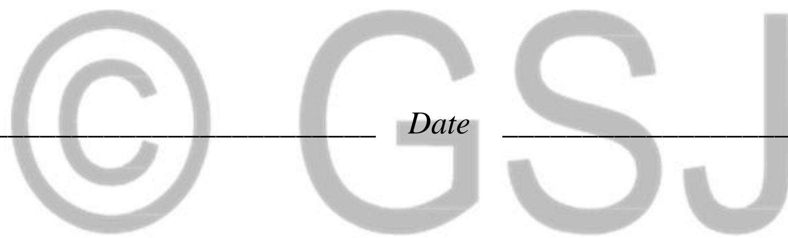
*Corporate governance has become an issue of global significance and has received new urgency due to various corporate scandals and failure. This study investigates the effect of corporate governance characteristics on Ethiopian sample private commercial banks financial performance as measured by return on asset and return on equity using eight years data from the year 2008 to 2015 with a sample of seven Ethiopian private commercial banks. To achieve the objective, the study employed mixed type research approach. Study used most of secondary data collection. In depth interview also conducted in structured form to get subjective responses regarding to corporate governance related factors influence on financial performance. The data was analyzed using multiple panel linear regression and the result is presented in descriptive, correlation, and regression analysis. Two financial performance indicators such as return on asset, and return on equity were used. Corporate governance characteristics considered in this study include board member size, board member gender diversity, board members educational qualification, industry specific experience, and board members sub audit committee size. The study controls the effect of size, leverage and growth of banks. The regression results show that large board size and audit committee negatively influences financial performance of sample private commercial banks in Ethiopia as measured by return on asset and return on equity; whereas board members educational qualification is significant and positively associated with financial performance. While industry specific experience of director positively related with return on equity but it has a negative effect on return on asset. Finally, the percentage of female directors does not have a significant effect. In general, the findings suggest that banks with effective corporate governance characteristics improve financial performance depending on the measure used although not all corporate governance characteristics are significant.*


**Keywords:** *Corporate governance characteristics, agency theory, financial performance, private commercial banks and Ethiopia.*

## *DECLARATION*

*I hereby declare that this thesis is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.*

*Diriba Beyene kenei*



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*This is to certify that the thesis prepared by Diriba Beyene entitled:* ***The Effects of Corporate Governance characteristics on Financial Performance of selected Private commercial banks in Ethiopia*** *and submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.*

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# Acronyms and Abbreviations

BoACS ----------------Board members Audit committee size

BaG ------------------- Bank growth

BaLEV ---------------- Banks Leverage

BoEDQ---------------- Board members Educational Qualification

BaSize------------------Bank Size

BoFD-------------------Board members Female Directors on the board

BoISEx---------------- Board members industry specific experience

NBE--------------------National Bank of Ethiopia

OECD------------------Organization for Economic Cooperation and Development

OLS---------------------Ordinary Least Square

ROA--------------------Return on Asset

ROE--------------------Return on Equity

S. No ------------------Serial Number

VIF--------------------Variance Inflation Factor

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# CHAPTER ONE

# INTRODUCTION

## 1.1. Background of the Study

corporate governance is characterized by a complex framework as it encompasses a wide range of stakeholders including not only shareholders but also depositors, creditors, suppliers, employees, and regulatory bodies.

Basel Committee (Basel 2006, p.5) defines bank governance as follows:

*"From the point of view of the banking industry, corporate governance involves the way banking institutions' business and affairs are managed by the board of administration and the top management, which affects how the bank works out the bank's objectives, plans and policies, taking into consideration making appropriate economic returns for founders and other shareholders, day-to-day work management, protection of the rights and interests of recognized stakeholders (shareholders and depositors), companies' commitment to sound and safe professional behaviors and practices which are in conformity with regulations and legislations*".

The unique features of banks necessitate strict government regulation through bank supervisors and a range of banking laws and regulations. The interface between these elements determines how well the performance of a bank conforms to the best interest of shareholders, while complying with regulatory standards. Hence, for shareholders and regulators the bank corporate governance practice is critical for the bank's success and its daily operations (Asnakech, 2013).

The World Bank (2006) stated that corporate governance includes two mechanisms, internal and external corporate governance. As stated, internal corporate governance focus on the priority of shareholders' interest, engage with the board of directors to oversee top management, whereas, external corporate governance engages on force and external regulations in order to control and oversee managers' behavior. It has received new urgency because of global financial crisis and major corporate failures that shock major financial centers of the world (Yenesew, 2012, Imam& Malik, 2007). Hence, corporate governance has become an important factor in managing organizations in the current global and complex environment.



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The separation of ownership (principal) and control (Agent) in modern corporations leads to an agency problem where the agent operates the firm in line with their own interests, instead of shareholders (Yenesew, 2012; Asnakech. 2013; Jensen &Meckling, 1976). The need for corporate governance arises from these potential conflicts of interest among stakeholders such as shareholders, board of directors and managers in the corporate structure. According to Imam and Malik (2007) these conflicts of interest often arise from two main reasons. First, different participants have different objectives and preferences. Second, the participants have imperfect information as to each other's actions, knowledge, and preferences. Corporate governance is intended at reducing divergence of interest and monitoring of controlling interests of the firm, the absence of which firm value is declined (Nanka-Bruce, 2009).

The financial system in Ethiopia is characterized by an inadequate risk management system. Insider ownership (ownership by managers and board members is preferable to outsiders managing the firm; a board filled with an atmosphere of challenge; sound risk management systems, and competitive environment among banks, are governance mechanisms which enhance financial value of banks (Asnakech. 2013).Such corporate governance mechanisms include board size, board gender diversity, size of audit committee, and board of directors' educational qualification , experience and etc. (Yenesew,2012). Many researchers have studied the impact of corporate governance practice on banks' financial performance from different perspectives in different environments using a number of explanatory variables (Yenesew, 2012; Peters and Bagshaw, 2014; Aulia, 2013;Olubukunola 'Ranti, 2011; Ashenafi, et.al, 2013; Bonsa. 2015).

According to (Yenesew. 2012) effective corporate governance practice improve financial performance depending on the financial performance measure being used and therefore, find that agency theory offers a generally good explanation of the associations between corporate governance practices with financial performance.( Peter and Bagshaw 2014) stated that financial performance of firms cannot be ascribed to their corporate governance quotient. The good corporate governance practice leads to better bank financial performance (Ashenafi, et.al, 2013). A sound financial system is based on profitable and adequate capitalized banks and performance of banks is affected by good corporate governance practice and policies (Yenesew, 2012).

Notwithstanding this aspect, little attention has been paid to corporate governance practice and its' effect on private commercial banks' financial performances of the economically developing countries in general and Ethiopia in particular.



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Thus; the aim of this effort is to provide private commercial banks' in Ethiopia focusing on the effects of corporate governance on financial performance as measured by return on asset and return on equity and its benefit which entails all occasions to compete accordingly both at national and international level.

## 1.2. Overview of Banking Industry in Ethiopia

(Yenesew. 2012) stated that the Ethiopian financial sector is dominated by the banking sector. Banks are the important component of any financial system. They play important role of channeling the savings of surplus sectors to deficit sectors. The efficiency and competitiveness of banking system defines the strength of any economy. Like other developing countries, in Ethiopia banks plays a vital role in the process of economic growth and development. The Ethiopian banking sector comprises one development bank, and seventeen commercial banks out of which one banks are state owned. The Ethiopian banking system has been regulated with its own key regulatory feature.

Mulugeta (2010) found that the key regulatory features were interest rate regulation, credit restrictions, equity market controls and foreign exchange controls. Although some restrictions are still in operation regulations which are affecting banks are being relaxed after implementing the financial liberalization (1992) measures. Consequently, the private sector financial institutions are growing, but major commercial banks and specialized institutions still remain within the public sector.

The financial liberalization reform of 1992 allowed the participation of private financial institutions in the economy. Private Banks' participation has increased and hence the share of their banking assets to total commercial banking assets increases. As in most developing countries, financial sector policy in Ethiopia aims at achieving more effective intermediation, and improving soundness and depth. Similarly; Ethiopian authorities have chosen to pursue these goals within a distinctive strategic framework for the financial sector, and emphasize the importance of further strengthening corporate governance and accountability of financial institutions, and boosting the capacity of financial sector professionals. Ensuring better corporate governance of corporations, financial institutions and markets is increasingly recognized as a pre-condition for the countries development. The bank corporate governance practice is a complex framework and it encompasses a bank's stockholders, its managers and other employees, and the board of directors. Banks further operate under a unique system of public oversight in the form of bank supervisors and a comprehensive body of banking laws and regulations.

The interaction between all corporate governance elements determines how well the performance of a bank will satisfy the desires of its stockholders, while also complying with public objectives (Adusei, 2011).

In Ethiopia the corporate governance of banks is directed and supervised by the central bank. The National Bank of Ethiopia monitors and controls the banking business and functions as regulators of the country's money supply. Accordingly, national bank of Ethiopia issued directives on the size, composition and competence of board of directors.

According to banking business Proclamation (No. 592/2008) the national bank is responsible to issue directives on the qualification and competency to be fulfilled by directors; the minimum number of directors in the membership of the board of a bank; the duties, responsibilities and good corporate governance of the boards of directors of bank; the maximum number of years a director may serve in any bank.

## 1.3. Statement of the problem

"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (OECD, 2004, P.11).

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Good corporate governance fosters efficient monitoring of corporate assets, effective risk management and greater transparency of financial activities helps to achieve and maintain public trust and confidence in the financial system. In contrast, poor corporate governance may contribute to financial failures which could, in turn, trigger a financial institutions run or liquidity crisis. Because of the opaque nature of private banks and heavy government regulation, corporate governance works differently in the financial sector. Private financial sectors are generally more opaque than non-financial institutions firms, and evidence suggests that informational asymmetries are larger in than in other sectors (Asnakech, 2013)

Corporate governance has become an issue of global significance as long as corporations are owned and being managed by two separate parties one as principal/owner/ and the other as control/agent/. The improvement of corporate governance practices is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of countries and corporations (Ibrahim et al., 2010).

Financial sectors are still underdeveloped and largely owned and controlled by the government. Thus, corporations, which can be defined by the principal-agent model and need the type of corporate reform experienced in the rest of the world, may not exist in large number in contemporary Ethiopia.

Corporate governance is an important issue where there is a separation of ownership/principal/ and control/agent/ in publicly held companies. In corporations, shareholders (principals) delegate decision making rights to management (agents), expecting agents to act in the best interest of the principals, however, the "agency problem" arises when the agents do not make their decision to the best interest of the principal or the agents are engaged in self-interest at the expense of shareholders interest.
The Ethiopian company law does not have adequate legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence of board of directors in share companies. The emergence of publicly held share companies in Ethiopia gives rise to a multitude of issues on corporate governance. Typically, ownership separates from the control of dispersed shareholders and goes into the hands of few managers, which in turn creates the principal-agent relationship. In such situations, agents (managers) may misappropriate the principals' (shareholders') investments as they have more information and knowledge than the shareholders and then the agency problems that could occur between dispersed shareholders and managers and/or block holders of share companies in Ethiopia, therefore, necessitate good corporate governance laws and institutions(Ashenafi et.al, 2012).

Ethiopian corporate governance practice is characterized by the absence of Share market, inadequate shareholders protection law and mix of politics and business (Asnakech, 2013). Most of prior studies, ( Al-Musalli& Ku Ismail,2012; Muoria Esther, 2011) have been conducted on large corporation within well-organized corporate governance complying with flexible rule and regulations and the existence of an adequate capital markets. This therefore, it is difficult to generalize the same result from the findings of those studies for relatively Ethiopian financial institutions' corporate governance characteristics.

Studies (Ashenafi. et.al, 2013, Tura, 2012; Peters and Bagshaw, 2014; Aulia, 2013) have been conducted on both state owned and private financial institution's jointly and it is difficult to generalize findings under the same quotation, because separation of principal (ownership) and agent (control) is largely found in private financial institutions where corporations are owned by a number of shareholders than state owned where the ownership is under a single umbrella (government).



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Private commercial banks are the subject of study for corporate governance for two reasons; firstly, even though information asymmetries exist in all sectors it is larger in private financial institutions since, they are generally more opaque and owned by a number of shareholders as compared with state owned financial institutions. (Yenesew, 2012; Levine, 2003).

This greater informational asymmetry between insiders (management) and outsiders (shareholders), and the opacity of their assets and activities in the sector amplifies the agency problem.

Secondly, they are corporations which activate different areas of business and have a dominant position in developing economic financial systems, and are important engines for economic growth (Asnakech, 2013; Yenesew, 2012; Levine, 1997, Bonsa, 2015).

In contrast, failures with the firms would affect the entire financial system and economy. By considering this point in view and the latent contribution of the private banking industries on economic development of developing country where there is no well-organized financial system in general and Ethiopia in particular, it is best to conduct a separate study to examine the effect of corporate governance characteristics on firms' financial performance focusing on internal corporate governance characteristics using data on selected private commercial banks in Ethiopia.

## 1.3. Research Question

To come up within the result of internal corporate governance effect on Private commercial banks financial performance and its benefit, the study will answer the question: how does corporate governance related factors affect financial performance of private commercial banks?

## 1.4. Hypothesis

Prior studies (Yenesew, 2012; Asnakech. 2013; Ashenafi et. al, 2012; Aulia, 2013; Muzividzi, 2013) stated that effective corporate governance is good for firms' better financial performance. However, according to some researchers (Aulia, 2013; (Peter and Bagshaw 2014) concluded as corporate governance practice has no significant effect on firms' financial performance. Furthermore; some of these studies have been conducted on large firms for economically developed countries, whereas other studies have been focused jointly on both state and privately owned where the separation between ownership and control is strongly different among the two classes.

Currently, Ethiopia is diversified in private commercial banks owned by individual shareholders those are providing potential contribution and serve as engine for economic development of the country.

As the role of the hypothesis is to guide the researcher by delimiting the area of research and to keep him on the right track, to examine the corporate governance characteristics and test the relationship between corporate governance characteristics and private banks' financial performance, the following hypothesis are developed.

**$Ho_1$**. There is significant negative relationship between Board member size and financial performance.

**$Ho_2$**. There is significant Positive relationship between Board Member educational Qualification and financial performance.

**$Ho_3$** There is significant positive relationship between Board Member industry specific experience and financial performance

**$Ho_5$** There is significant positive relationship between board member gender diversity and financial performance.

**$Ho_4$** There is significant negative relationship between Board member Audit committee size and financial performance.

## 1.5. Objective of the study

### 1.5.1. General objective of the study

The general objective of this study is to examine the effect of corporate governance characteristics on financial performance of private commercial banks in Ethiopia.

### 1.5.2. Specific objective of the study

Besides to the general objective of the study, this study specifically required to;

1. Identify the relationship between Board member size and financial performance.
2. Investigate the association between Board member educational qualification and financial performance.
3. Analyze the influence of Board member industry specific experience and financial performance
4. Identify the influence of Board member audit committee size on financial performance.
5. Analyze the relationship between board member gender diversity and financial performance.

## 1.6. Significance of the study

As long as the study generally aimed to examine the effect of corporate governance characteristics on financial performance private commercial banks, the result of this study will provide financial institutions



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by identifying the relevant corporate governance characteristics and its benefit for financial performance of in general and private commercial banks in particular.

Besides to this the empirical result of this study will also indicate the regulatory organs about the useful and effective corporate governance practices in raising the financial performance. Finally, it can serve as the stepping stone and literature for those who want to conduct studies on related issues.

## 1.7. Delimitation of the study

This study is delimited to examine the effect of corporate governance characteristics on financial performance of the sample private commercial banks in Ethiopia. From independent variables view, the study is delimited to examine the effect of corporate governance characteristics on private banks financial performance using explanatory variables like, Board member size, Board member educational qualification, Board member industry specific experience, Board member gender diversity and board member audit committee size. The dependent variables are delimited to financial performance measured by return on asset and return on equity of the sample private banks in Ethiopia.

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## 1.8. Organization of the study

To examine the effect of corporate governance characteristics on financial performance of sample private banks in Ethiopia, this dissertation is structured as follows. Chapter one is the introduction part which contains background of the study, over views of banking industry in Ethiopia, statement of the problem, research objective, significance of the study, scope of the study , and organization of the study. Chapter two presents a discussion on literature review composed of theoretical and empirical review of prior studies and overview of corporate governance practice in Ethiopia. Chapter three outlined the research methodology followed in the study. Chapter four presents the results and analysis from descriptive statistics, correlation and regression analysis. Chapter five presents conclusion, recommendation, major findings, and future research of the study.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.1. Definitions of Corporate Governance

There are different definitions for corporate governance. The most widely used definition is the one given by OECD, which states that "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. It also provides the structures of the companies' objective are set and, the means through which those objectives and monitoring performance are attained" (OECD, 1999, p.76).

In its 2004 update, the OECD describes what corporate governance involves and provides:

*"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth (OECD, 2004, p.11)".*

Different definitions more or less have the same meaning even though they emphasize different aspects of corporate governance.

Here are some definitions taken from the literature:

"*Corporate governance comprises a country's private and public institutions (both formal and informal) which together govern the relationship between the people who manage corporations (corporate insiders) and all others who invest resources in corporations in the country*" (Oman et al., 2003, p.45).



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The Encyclopedia about corporate governance emphasizes the importance of corporate governance for the economic health of corporations and society in general. So it gives an economics-oriented definition of it. Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return (Encycogov, 2005).

Consistent with the above definition, Shleifer and Vishny (1997, p. 737) state that "*corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment*."

The International Chamber of Commerce provides a corporate-specific definition of corporate governance: "*Corporate governance is the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives. And the corporation itself conforms to the law and regulation*" (ICCWBO, 2005, P.253). The author suggests the introduction to the literature of a new definition of corporate governance: "Corporate governance is a mechanism for ensuring the stakeholders of corporations for its well-being, fairness, social responsibility, transparency and accountability."

Economists and social scientists, for instance, tend to define corporate governance broadly as "the institutions that influence how business corporations allocate resources and returns"; and "the organizations and rules that affect expectations about the exercise of control of resources in firms." This definition encompasses not only the formal rules and institutions of corporate governance, but also the informal practices that evolve in the absence or weakness of formal rules (Fekadu, 2010, p18).

Corporate managers, investors, policy makers, and lawyers, on the other hand, tend to employ a narrower definition. For them, corporate governance is the system of rules and institutions that determines the control and direction of the corporation and that defines relations among the corporation's primary participants. The definition used in the United Kingdom's 1992 Cadbury Report is widely cited from this perspective, and it reads: "Corporate governance is the system by which businesses are directed and controlled." This narrower definition focuses almost exclusively on the internal structure and operation of the corporation's decision-making processes, and is central to public policy discussions about corporate

governance in most countries. It is to be noted that corporate governance differs from corporate management. As (Fernando (1997), notes corporate governance is not just corporate management; it is something much broader to include a fair, efficient, and transparent administration to meet certain well defined objectives. It is structuring, operating and controlling a company with a view to achieving long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers and to comply with the legal and regulatory requirements, apart from meeting environmental and local community needs.

Thus, corporate governance refers to all issues related to ownership and control of corporate property, the rights of shareholders and management, powers and responsibilities of the Board of Directors, disclosure and transparency of corporate information, the protection of interests of stakeholders that are not shareholders, enforcement of rights, etc. Corporate governance systems depend upon a set of institutions such as laws, regulations, contract enforcements and norms that create self-governing firms as the central element of a competitive market economy. These institutions ensure that the internal corporate governance procedures adopted by firms are enforced and they render management responsible to owners and other stakeholders (Minga. 2013)

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The definition of 'corporate governance' is not provided under the Ethiopian company law. For the purpose of this study, it is important to adopt a working definition for corporate governance as a system of rules and institutions that determine the control and direction of a company and that define relations among the company's primary participants including board of directors, managers, shareholders and other stakeholders. This combines the narrow and broad definitions and it considers corporate governance as a system of rules and institutions which determine the control and direction of a company. It recognizes not only shareholders but also stakeholders that should be involved in the governance of share companies.

## 2.2. Theoretical Framework of the Literature

Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. It includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim &Rasiah, 2010). According to Imam and Malik (2007) the corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources. The challenge of corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it fulfills the long term strategic goal of the owners.



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It will certainly not be the same for all organizations, but will take into account the expectations of all the key stakeholders (Imam & Malik, 2007). So maintaining proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities is also achieved by good practice of corporate governance.

There are a number of theoretical perspectives which are used in explaining the impact of corporate governance practice on firm's financial performance. The most important theories are the agency theory, stakeholder's theory and resource dependency theory (Maher &Anderson, 1999). Disagreements over the merits of financial theories stem, in part, from different views of the role that theory plays. It is, therefore, helpful to recognize the different kinds of theory.

One kind of theory represents a point of view. A point of view theory is not an explicit model, but rather a set of principles that guide the development of specific models and tests. All under listed theories can be understood as point of view theories. Each provides a guide for the development of models and tests. But neither is tied to a specific model formulation.

A second kind of theory is an illustrative theory. An illustrative theory shows how a certain idea can be expressed in a coherent manner. The point of an illustrative theory is to show an idea in as clear and as simple a manner as possible. Accordingly strong assumptions are often made to solve specific models in closed form.

A third kind of theory is a unifying model. A unifying model is presented as a means of tying together a variety of observations in a coherent manner. A unifying model is supposed to integrate many facts to show that they stem from a common underlying structure

A fourth kind of theory is normative theory. Normative theory is intended to offer advice to someone.

## 2.2.1. Agency Theory

The origins of the agency theory can be traced back to Adam Smith (1776) and his discussion of the problem of the separation of ownership and control. He suggested that managers of other people's money cannot be expected to "watch over it with the same anxious vigilance" one would expect from owners and that "negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company" (Smith, 1776).

With its roots in financial economics, agency theory was developed to address the conflicting relationship between owners and managers in large corporations. The underlying problem of corporate governance in this model stems from the principal-agent relationship arising from the separation of beneficial ownership and executive decision making. It is this separation that causes the firm's behavior to diverge from the profit maximizing goal.

This happens because the interests and objectives of the principal (the investors) and the agent (the managers) differ when there is a separation of ownership and control. Since the managers are not the owners of the firm they do not bear the full costs, or secure the full benefits, of their actions. Therefore, although investors are interested in maximizing shareholder value, managers may have other objectives such as maximizing their salaries, growth in market share, or an attachment to particular investment projects, (Jensen and Meckling, 1976).

The agency problem, therefore, is also an asymmetric information problem. i.e. managers are better informed regarding what are the best alternative uses for the investors' funds. As a result, the manager ends up with substantial residual control rights and discretion to allocate funds as he or she chooses. There may be limits on this discretion specified in the contract, but the fact is that managers do have most of the residual control rights which can lead to problems of management entrenchment and rent extraction by managers, (Fama and Jenson, 1983). According to agency theory, much of corporate governance deals with the limits on managers' discretion and accountability. Agency theorists typically take the maximization of shareholder wealth as the primary standard for evaluating corporate performance and ask how the board can serve to further corporate performance. Abdullah and Valentine (2009 p-22) defined agency theory as "the relationship between the principals (shareholders) and agents (the company executives)". The key determinant in agency theory is agency relationship. Jensen and Meckling (1976 p-5) defined agency relationship as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". This is simply where one party (the principal) delegates work to another party (the agent).

According to this theory, the central need for corporate governance is to align the interest of agent and principal and then maximize the interest of shareholders. The main purpose of corporate governance should be protecting the interest of shareholders and the interest of other stakeholder can be protected by the invisible hand (market).



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The agency theory model rejects external interventions and additional obligations imposed on corporations by government and central authorities because it may distort free market operations, (Hart 1995). It sees a firm's existing governance arrangements as the outcome of a bargaining process, which has been freely entered into by corporate insiders and outsiders, (Keasey et al. 1997).

More specifically, as a rational economic model, it assumes that factor markets (e.g., capital, managerial labor and corporate control) are efficient and subsequently self-regulation backed by additional voluntary mechanisms such as a voluntary corporate governance code are more effective in reducing divergent activities of managers, (Letza et al. 2004). The rejection of external interventions by central regulatory authorities, but heavy reliance on free market regulation, is also based on a core premise that the major source of finance to corporations is equity rather than debt. That is, equity capital is expected to be raised mainly from efficiently operated capital markets. In such a market, capital is assumed to freely move to investments that offer the highest risk-adjusted returns, (Friedman 1970). If there is efficient capital market, the shareholders can easily either transfer their capital from a poorly-governed company to a better-governed one or a poorly-governed company may be acquired by a better-governed firm. Similarly, and at least in theory, poorly performing managers can easily be fired and replaced with an efficient team, hence, providing the most effective restraints on managerial discretion,(Friedman, 1970 ). The language employed by agency theory pertains to the situation one that is basic to the structure of all organizations in which one party (termed the "principal") seeks to achieve some outcome but requires the assistance of another (termed the "agent") to carry out a necessary activity (Dustas,2008):

- Agency theory describes organizations as a nexus of contracts among self-interested principals and agents, including managers, stockholders and board of directors, and argues that the contractual arrangements that survive are those that best solve the problem of minimizing agency costs.
- Agency theory is "a theory of the ownership (or capital) structure of the firm"
- Agency theory seeks to understand the causes and consequences of goal incongruence and principal-agent problems.
- The key idea is that principal-agent relationships should reflect efficient organization of information and risk bearing costs.
- Agency theory differs from Transaction Cost Economics in its intra-organizational emphasis on the risk attitudes of principals and agents.



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### 2.2.2 Stakeholder theory

The stakeholder theorists argue that rather than running the firm to primarily maximize the wealth of shareholders, the firm should equally serve the interests of a wider stakeholder group. These may include employees, creditors, suppliers, customers and local communities that have long-term relationships with the firm and thus affect its long-term success, (Freeman and Reed 1983, Hummels, 1998). As a result, it has been contested that the agency theory model's exclusively emphasis on the powers and rights of shareholders and results in the negligence of the interests of other legitimate stakeholders, (Blair 1995).

Unlike the shareholding model that encourages firms to exclusively advance the interests of shareholders, stakeholder suggests that companies should inclusively pursue the interests of a group of identifiable stakeholders who may either directly or indirectly be affected by or can affect the success of the firm. Like the shareholding model, however, it subscribes to the idea that the separation of ownership and control in modern public corporations creates a governance problem, (Keasey et al. 1997). The theory also agrees with the shareholding model's assumption that the resulting agency conflicts may be reduced by the firm through a nexus of contracts between the various stakeholders of the firm, and that the firm should be run rationally in economic terms to broadly maximize its wealth, (Hill and Jones, 1992). By contrast, the theory rejects the assumption that shareholders and managers are the only important participants in such a relationship, (Blair, 1995).

Further, while it shares the assumption that markets can be efficient (Fama, 1970), it also recognizes the existence of short to medium-run market inefficiencies. This implies that there may be a need for occasional external interventions, including statutory legislations to establish equilibrium in order to maximize the broader societal wealth, (Hill and Jones, 1992).

### 2.2.3 Steward ship theory

According to Huse (2007), the core concept of stewardship theory is trust. Unlike agency and stakeholder theory, stewardship theory considers managers as good stewards who will act in the best interest of the owners. The steward's behavior is pro-organizational and collectivists, and has higher utility than individualistic self- serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization, (Davis et al. 1997).



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According to stewardship corporate governance model, Managers are viewed as loyal to the company and interested in achieving high performance. The dominant motive, which directs managers to accomplish their job, is their desire to perform excellently. Specifically, managers are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses than any financial motive. The stewardship theory holds that managers inherently seek to do a good job, maximize company profits and bring good returns to stockholders. They do not necessarily do this for their own financial interest, but because they have a strong affiliation to the firm.

The need for board of director according to stewardship theory is that to advise and support management rather than to discipline and monitor, a view which is entirely opposed to the agency theory. According to Smallman (2004), where shareholder wealth is maximized, the steward's utilities are maximized too, because organizational success will serve most requirements and the steward's will have a clear mission. Steward, who improves performance successfully, satisfies most stakeholder groups in an organization, when these groups have interests that are well served by increasing organizational wealth, (Davis et al.1997). In doing so, managers need the advisee and support of board. Therefore, according to this theory board of director play an advisory and supportive role instead of controlling the managerial opportunism.

Thus; the focus of stewardship theory is on structures that facilitate and empower rather than monitor and control, (Davis et al.1997). Therefore, stewardship theory takes a more relaxed view of the separation of the role of chairman and chief executive officer (CEO), and supports appointment of a single person for the position of chairman and CEO and a majority of specialist executive directors rather than non-executive directors, (Clarke 2004).

## 2.2.4 Resource dependency theory

The basic proposition of resource dependence theory is the need for environmental linkages between the firm and outside resources. In this perspective, directors serve to connect the firm with external factors by inviting the resources needed to survive. Resource dependency theory describes organizational success as the ability to maximize power by accessing scarce and essential resources, (Pfeffer 1972).



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According to the same author, corporate boards can assist organizations in gaining access to important resources that might otherwise be beyond their reach.

This means that boards of directors are an important mechanism for absorbing critical elements of environmental uncertainty into the firm. Environmental linkages could reduce transaction costs associated with environmental interdependency and then increase the performance of the company. The justification by resource dependency theory for the creation of linkages between the firm and its external environment through boards is; firms that create linkages could improve their survival and performance. Boards are considered important boundary-spanners that secure necessary resources, such as knowledge, capital, and venture partnering arrangements, (Ruigorket al.2007). Diversity of corporate board members has been found to be an important element in this theory since it can lead to broader corporate networks and improve financial performance, (Waddock and Graves 1997).

In the economics concerning the impact of corporate governance on performance, the debate is narrowed to two different models of the corporation, the shareholder (agency) model and the stakeholder model, (Andersson & Maher1999). But, in this study, to construct the regression model of corporate governance, the stakeholder approach of corporate governance was used because of the following reasons.

Firstly, banks are distinguished for having particular characteristics that agency theory failed to address. The main assumption used by agency theory is that markets are efficient and there is no information asymmetry. But Banks are generally more exposed to information asymmetry between insiders (bank managers) and outsiders (shareholders and depositors) in comparison with non-financial institutions, because managers are more able to hide information, making it difficult for shareholders and creditors to monitor bank managers, (Rose 2003).

The other bank character which is in conflict with agency theory assumption is that they are subject to tight regulation. According to Hart (1995), the agency theory model rejects external interventions and additional obligations imposed on corporations by government and central authorities because it may distort free market operations. But Banks are characterized by the considerable opacity of their assets and activities and due to their economic importance; they are subject to a large set of statutes and regulations, (Rajan 2001).



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The regulations to which banks are subject may lead to weakening the monitoring role undertaken by the market towards banks, (Pablo &Eleuterio 2008). The other distinguished characteristics of bank are the multiplicity of stakeholders. In case of bank there is a dual agency conflict. Since substantial fund of bank is raised through depositors, the success of these institutes depends on how these depositors are protected. So like shareholders the interest of the owner of higher amount of fund which is used by banks (depositors) must be protected, which is out of the lens of agency theory.

The main theme of agency theory, perfect competition, or the invisible hand is almost none existed in banking industry. Banks are subject to numerous systems and prudential regulations, which are an important and crucial element in securing sound and healthy banking governance. To protect the healthiness of banking industry, competition is restricted by these different regulation drafted by central banks. According to Friedman (1970), the major source of finance to corporations is equity rather than debt. That is, equity capital is expected to be raised mainly from efficiently operated capital markets. But this is not true in case of banks. The bank's structure is quite different from that of other companies because of the high credit rate since they largely rely on receiving deposits to mobilize funds. Banks receive 90% of their funds from credits, (Shelash 2011).

Secondly, the assumption used by agency theory is not consistent with the financial system of Ethiopia. Agency theory assumes efficient capital market. According to agency model by using the market, the stockholders can govern or put a restriction on the behavior of the manager as well as on the board. But in case of Ethiopia there is no such efficient capital market.

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## 2.3. Elements of bank corporate governance

### 2.3.1. Good Board structure and practice

(OECD. 2004) Board structures and procedures vary across countries. Some countries have two-tier boards that separate the supervisory function and the management functions into different bodies. Such systems typically have a “supervisory board” composed of non-executive board members and a “management board” composed entirely of executives. Other countries have “unitary” boards, which bring together executive and non-executive board members. In some countries there is also an additional statutory body for audit purposes. The Principles are intended to be sufficiently general to apply to whatever board structure is charged with the functions of governing the enterprise and monitoring management.

Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. In order for boards to effectively fulfill their responsibilities they must be able to exercise objective and independent judgment. Another important board responsibility is to oversee systems designed to ensure that the corporation obeys applicable laws, including tax, competition, labor, environmental, equal opportunity, health and safety laws. In some countries, companies have found it useful to explicitly articulate the responsibilities that the board assumes and those for which management is accountable.

The board is not only accountable to the company and its shareholders but also has a duty to act in their best interests. In addition, boards are expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities. Observance of environmental and social standards is relevant in this context.

### 2.3.2. Well defined shareholders right

OECD, principles of corporate governance out lined the following as common shareholders right as among the key elements of corporate governance, corporate governance framework should protect shareholders’ rights and facilitate their exercise. The shareholders must be sure that their property right over the securities will not be violated.

The shareholder has the right to have access to full information about the company and its activity, to require the exercise of a solid corporate management and of supervision by the Council of the company, designed to increase the value of his investments.

**The Best Practice of the right should include;**

- The right to certain mechanisms of property registration and confirmation.
- The right to transfer and sell his shares, pursuant to the law; the free transfer and sale of shares shall be ensured for the shareholders of companies, whose securities are traded on a regulated market. To ensure this right, it is necessary that the company and the registrar exclude any unjust and unfounded (illicit) restrictions and conditions, so that the shareholders have the opportunity to use the right to freely transfer their shares starting with the moment of registering ownership over them. All the transfers and sales of shares shall be recorded in the register of securities owners pursuant to the provisions of normative acts in force.

- The right to be informed. The shareholders have the right to: exercise their rights without confronting any informational barriers established by the company; be informed about their rights and the way to exercise them; obtain in due time the information requested from the company; be informed on the structure of capital and the agreements that allow shareholders to control the company.
- The right to participate and vote in the general meeting of shareholders. In order to ensure the effective exercise of this right, it is necessary that: the way of informing about the general meeting of shareholders allow the shareholders to properly prepare for participation therein; the shareholders are ensured the opportunity to see the list of persons entitled to participate in the general meeting of shareholders; the place, date and hour of the general meeting of shareholders are selected in such a way, that the shareholders have a real and convenient opportunity to participate; the shareholders right to call a general meeting and submit proposals for the agenda is not unjustifiably impeded by the confirmation by the shareholders of the existence of such a right; each shareholder has the opportunity to exercise his right to vote in the simplest and most convenient way.



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- The right to share in the company's profit. In order to ensure the exercise of this right, it is necessary that: a clear and transparent mechanism of calculating the amount of dividends and of payment thereof is established for the use of shareholders; sufficient information is presented to the shareholders, so that they can have a clear image on the conditions and way of dividend payment; it is established a way of paying dividends that does not create unjustifiable burdens at their receipt; the liability of the executive body is provided in cases of non-payment or late payment of announced dividends

### 2.3.3. Control Environment

There has been growing recognition in recent years of the importance of corporate governance in ensuring sound financial reporting and deterring fraud. The audit serves as a monitoring device and is thus part of the corporate governance mosaic (Dustas, 2008) argued that "audit committees play an indispensable role in challenging those practices that have the potential to undermine the quality of financial reporting." In addition, by performing the attest verification function, auditors are a significant part of a firm's monitoring system and thus can also be considered an essential component of the corporate governance mosaic. Therefore, in principle, auditors must work with other actors in the

Corporate governance ensures that stakeholders receive the highest quality financial reports as well as help to protect the interests of current and future shareholders and investors. For instance, the auditor must work with the audit committee to assess and promote financial reporting quality (Cohen et al., 2002).

An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects.

In addition to certifying that the financial statements represent fairly the financial position of a company, the audit statement should also include an opinion on the way in which financial statements have been prepared and presented. This should contribute to an improved control environment in the company. (OECD. 2004. P, 54)

### 2.3.4. Transparency and Disclosure

Transparency describes the increased flow of timely and reliable economic, social, and political information about investors' use of loans, creditworthiness of borrowers, monetary and fiscal policy, and the activities of international institutions. Alternatively, a lack of transparency may exist if access to information is denied, if the information given is irrelevant to the issue at hand; or if the information is misrepresented, inaccurate, or untimely. Thus, a working understanding of transparency should encompass such attributes as access, comprehensiveness, relevance, quality, and reliability (Dustas, 2008).

Transparency and disclosure are integral to corporate governance. Higher transparency and better disclosure reduce the information asymmetry between a firm's management and financial stakeholder's equity and bond holders, mitigating the agency problem in corporate governance. The practitioners, large institutional equity investors in particular, have also demonstrated increasingly active participation in creating a level playing ground between the management and financial stakeholders. The focus on transparency and disclosure has increased in the wake of recent events beginning with the Asian crisis in the latter half of 1997 and continuing with the recent discussions in the USA equity markets. (Patel et al., 2002).

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The OECD emphasizes that a strong disclosure regime promoting real transparency is a pivotal feature of market-based monitoring of companies and is central to shareholders' ability to exercise their ownership rights on an informed basis. Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management and make informed decisions about the valuation, ownership and voting of shares. Insufficient or unclear information could hamper the ability of markets to function, increase the cost of capital and result in a poor allocation of resources (OECD, 2006).

The OECD's assessment of transparency and disclosure involves a consideration of the extent to which the corporate governance framework effectively provides for disclosure of material information about; companies' financial and operating results, their non-commercial objectives relevant to investors and others, major share ownership and voting rights, remuneration policies and information about board members, related party transactions, foreseeable risk factors, issues relating to employees and other stakeholders; and governance structures and policies.

The assessment also involves a consideration of:

- ✓ financial and non-financial reporting standards and practices;
- ✓ external auditing standards, practices and mechanisms for oversight of auditors;
- ✓ the role of external auditors;
- ✓ the extent to which channels for disseminating information provide for equal, timely and cost-efficient access to relevant information by users; and
- ✓ the extent to which the corporate governance framework is complemented by an effective approach that promotes the provision of analysis or advice by analysts, brokers, rating agencies and others that is relevant to investment decisions and free from material conflicts of interest (OECD, 2006).

## 2.4. Overview of Corporate Governance Practice in Ethiopia

To regulate these modern companies, Ethiopia enacted the 1931 Company and Bankruptcy Law. Nevertheless, the rapid growth of the sector in large scale and increased flow of foreign investment forced Ethiopia to enact a new commercial law. As a result, Ethiopia repealed the 1931 Company and Bankruptcy Law and enacted the 1960 Commercial Code (hereafter the Commercial Code).

The enactment of the commercial code facilitated the formation of several public and private companies in the country until 1974.5 However; the Derg Revolution (1974-1991) entirely suspended the commercial code and nationalized all incorporated companies by a series of Proclamations and Decrees. During this time, the formations of new companies were prohibited. The commercial code resumed in 1991 after the fall of the Derg Regime by the current government. Consequently, several public and private companies are being incorporated. Though, private limited companies are still the dominant business practice in Ethiopia, the formation of companies through the offering of shares to the public under the share company law provisions are dramatically increasing since 2005.7. The share company law provisions are part of the Commercial Code under the heading of Business Organizations entitled "Companies Limited by Shares" (Minga. 2008, Commercial Code (n3) arts (304-509)."

Despite the fact that the share company law has relevant provisions, it is apparently unable to create conducive legal and regulatory environments to the smooth running and ongoing operation of public companies.



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Its legal and regulatory frameworks are not properly articulated and failed to provide comprehensive legislative response to the modern complicated corporate governance issues of public companies. For instance, requirements to form or increase the company's capital through issuing of equity/debt securities to the public are inadequate to protect potential investors. Similarly, to form a share company, it imposes a minimum of shareholder membership and capital requirement. These two provisions not only contravene current international standards and best practices but also discourage new investment and pools of capital resources. Its statutory frameworks also failed to provide adequate and clear allocation of powers to regulatory institutions. It neglected to require legislation of other enabling legal instruments like security laws and regulations (Gebeyehu. 2012)

Correspondingly, the basic governance aspects of share company law provisions are defective and inadequate. Among others, the followings are the major loopholes and shortcomings. Restricting shareholders rights to transfer of their shares not only limits shareholders to exercise their ownership rights but also impedes liquidity of company's shares in the capital markets. Imposing voting caps on shareholders at the company meetings contravenes "one share one vote principle." Likewise, the provision that requires shareholders to deposit their shares prior to the meeting of shareholders prevents minority shareholders to sell their shares before the meetings. Further, allowing companies to issue bearer shares may contribute to the creation of anonymous ownerships. This in turn hampers company's transparency and may lead to tax evasions and misappropriation of company's assets by corporate insiders to the detriment of the company and minority shareholders.

In addition, minority shareholders are not protected from abusive corporate insiders and in case of violation they have no rights to derivative suit against directors or challenge the decisions of controlling shareholders in courts. There are no minimum mandatory and voluntary disclosure and transparency standards. The requirements of accounting and auditing standards do not comply with the international financial reporting standard and best practices. It also entirely disregarded the interests and roles of stakeholders within the company. Finally, the functions and responsibilities of boards and auditors in the company are also inadequate.

As stated by (Tura. 2012); the definition of 'corporate governance' is not provided under the Ethiopian company law. For the purpose of this study, it is thus important to adopt a working definition for corporate governance as a system of rules and institutions that determine the control and direction of a company and that define relations among the company's primary participants including board of



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directors, managers, shareholders and other stakeholders. This combines the narrow and broad definitions and it considers corporate governance as a system of rules and institutions which determine the control and direction of a company. It recognizes not only shareholders but also stakeholders that should be involved in the governance of share companies. Besides the Commercial Code, 1960), states that banking operations in Ethiopia are governed by first established by the Monetary and banking proclamation in July 1963 and changed following regime change of 1974 and monetary and Banking proclamation of No.99/1976 changed in 1974 as the Banking Proclamation . After the Downfall of Dergue regime in 1991, a new Monetary and Banking proclamation No.83/1994 was enacted, Finally in 2008 anew proclamation gave full power to national bank of Ethiopia (NBE) as a central bank, National Bank of Ethiopia establishment proclamation No. 591/2008. Moreover, Banking Business Proclamation No.592/2008 was also enacted to regulate the banking business in Ethiopia.(ProclamationNo.591/2008 and Proclamation No.592/2008 of August 2008)

In the latest development, National Bank of Ethiopia (NBE) has issued draft corporate Governance directive which is termed as National Bank of Ethiopia (NBE) directive No SBB/-- /2014 on Corporate Governance for Banks/Insurers/Micro Finance Institutions. The draft directive defines corporate governance as a means the process and structure used to direct and manage the business and affairs of a bank/an insurer/a microfinance institution towards enhancing business prosperity and corporate accountability with ultimate objectives of realizing long term shareholders value and other stakeholders' interest. Gebeyew.2012, Commercial Code arts (317-322) and (468-469) respectively.

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## 2.5. Empirical review of previous studies

Corporate governance can take the form of mechanisms both internal and external to the company, (Gillan. 2006). Management and its board of directors are internal corporate governance instruments. Management acts as an agent for shareholders by investing the firm's resources and by deciding how to finance additional investments. Boards of directors, in turn, are elected by shareholders to hire, monitor, and advise management in the interests of shareholders. In the conventional literature of corporate governance, the market is the only external governance force with the power to discipline the agent. The existence of regulation means there is an additional external force with the power to discipline the agent.

This force is quite different than the market. This implies that the power of regulation has different effects to those produced by markets. However; this study will focus to examine the relationship between internal governance practice and its effect on selected private financial institutions' financial performance.

## 2.5.1. Board composition and financial performance

The board of directors is charged with oversight of management on behalf of shareholders. They are responsible for setting the strategic direction and overseeing the risk management policies of the bank. The members are appointed by the shareholders in order to control the activities of managers in the company. The board of directors, as internal mechanism of governance, has its key role in controlling managers. Their main responsibility is to endorse the organization's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organization to its shareholders, authorities and other stakeholders (Kibrysfaw. 2013)

The relative effectiveness of corporate governance has a profound effect on how well a business performs. The issue of structure of the board of directors as a corporate governance mechanism has received considerable attention in recent years from academics, market participants, and regulators. It continues to receive attention because theory provides conflicting views as to the impact of board structure on the control and performance of firms, while at the same time the empirical evidence is inconclusive. This dissertation will incorporate board member size, board member educational qualification, board member audit committee, board member industry specific experience and board member female director (gender diversity) as the explanatory variables to examine the relationship between the corporate governance and financial performance of the selected private commercial banks in Ethiopia(Gebeyehu.2012, Bonsa. 2015).

### 2.5.1.1 Board members size and financial performance

According to (Kibrysfaw, 2013), the size of board is considered to be crucial characteristics of board structure. The review of the empirical evidence on the impact of board size on performance shows mixed results. Some studies concluded that board size is positively related to performance by reasoning large boards could provide the diversity that would help companies get critical resources and increase monitoring capacity of the board, (Haniffa and Hudaib, 2006, p1038). Vanden Berghe and Levrau (2004) argue that expanding the number of directors provides an increased pool of expertise and thus larger boards are likely to have more knowledge and skills at their disposal than smaller boards.

Furthermore, Goodstein et al. (1994), suggests that larger boards may reduce the domination of the CEO. Nicholson & Geoffrey (2003), by using 348 samples of Australian largest publicly listed companies, supports the positive correlation between board size and firm performance.

According to studies like Kiel & Nicholson (2003) and Godard and Schatt (2004), in uncertain environment large board size can improve performance and effective control. Similarly, Sunday (2008), found positive relationship between board size and bank performance. Findings of Dehaene et al (2001), Jackling and Johl (2009), Dalton et al.(1998), Pearce & Zahra (1992) witnessed the positive impact of board size on corporate performance. All the above findings of positive relationship support resource dependency theory of corporate governance.

In contrast Lipton and Lorsch (1992), asserted that large boards are associated with greater free riding, slower decision making, and problems of coordination, control and flexibility in decision making. Furthermore, Jensen (1993) argues that as the board size increases, boards' ability to monitor managements decrease due to a greater tendency to avoid an increase in decision making time. According to Jensen (1993), the decision-making power of the board becomes slower with the involvement of more people. These above findings of negative relationship between board size and bank performance are consistent with agency as well as stakeholder's theory. Accordingly, the current study also predicted the negative relationship between board size and financial performance.

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## 2.5.1.2 Audit committee size and financial performance

Audit committee is another attributes of corporate governance structure so that it assists the board in fulfilling its oversight responsibilities by reviewing the financial information and internal control system, (Wawaru et al. 2008). According Keyereboah-coleman (2007), the availability of audit committee on the board has a positive impact on return on asset. Similarly Chin and li (2008) found significant and positive relationship between the existence of audit committee in the board and firm performance (see also Yenesew, 2012; Kibrysfaw, 2013, Bonsa, 2015).

Furthermore, Klein (2002) found a negative relationship between earning manipulation and existence of audit committee size in the board of directors. On the other hand, Sunday (2008) did not found significant relationship between availability of audit committee and bank performance. The current study proposed negative relationship of audit committee size and private commercial banks financial performance.

### 2.5.1.3. Board Gender diversity and financial performance

Gender diversity is part of the broader concept of board diversity. Boards are concerned with having right composition to provide diverse perspectives. Greater female representation on boards provides some additional skills and perspectives that may not be possible with all-male boards (Boyle & Jane, 2011). Board diversity promotes more effective monitoring and problem-solving.

He suggests that female board members will bring diverse viewpoints to the boardroom and will provoke lively boardroom discussions.

Gender diversity in the boards is supported by different theoretical perspectives. Agency theory is mainly concerned about monitoring role of directors. Representation from diverse groups will provide a balanced board so that no individual or group of individuals can dominate the decision-making of the board (Erhardt et al., 2003). The management may be less able to manipulate a more heterogeneous board to achieve their personal interests. Gender diversity is associated with effectiveness in the oversight function of boards of directors. The oversight function may be more effective if there is gender diversity in board which allows for a broader range of opinions to be considered. According to Erhardt et al. (2003), diversity of the board of directors and the subsequent conflict that is considered to commonly occur with diverse group dynamics is likely to have a positive impact on the controlling function and could be one of several tools used to minimize potential agency issues.

From stakeholders' theory, diversity also provides representation for different stakeholders of the firm for equity and fairness (Keasey et al., 1997). From resource dependency perspective, the board is a strategic resource, which provides a linkage to various external resources (Walt & Ingley, 2003). This is facilitated by board diversity. On the other hand, Rose (2007) revealed insignificant association between number of women directors on the board and firm performance. However, many scholars now believe that an increase in board diversity leads to better boards and governance on the ground that diversity allows boards to tap on broader talent pools for the role of directors (Bathula, 2008). However, as he stated in corporate world women representation on boards is very limited.

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### 2.5.1.4. Educational qualification and financial performance

Director's educational qualifications are central to effectively interpret and utilize the information generated by the management of particular types of business enterprise. Educational qualification is potentially important since the ability to seek and interpret appropriate information is essential for the efficient operation of the modern corporation and the effective control or guidance of management by boards of directors. Educational qualification affects the oversight and monitoring role of boards of directors (Gantenbein &Volonte. 2011, Yenesew. 2012).

Board of directors is vested with the responsibility of ensuring that the shareholders' money is not wasted, shareholders have a serious interest in ensuring that the board is staffed with well-educated and experienced directors (Gantenbein &Volonte. 2011).

The human capital provided by its board of directors is vital given the corporate board is one of the mechanisms for overseeing the firm and it can arguably provide the knowledge needed to function in the new environment. Personal profile factors of directors such as education and experience is important for board efficiency.

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### 2.5.1.5. Industry specific experience and financial performance

Appointing directors with related and relevant skills and knowledge to perform task specific duties such as the firm's internal control and procedures will enhance the quality of information gathered and the solution to problems and of the views held and judgments made during the decision-making process (DeZoort, 1998 as cited by Saat, et al, 2011). Directors' specialist knowledge will be valuable to the creation of a strong and informed board (Saat et al., 2011). He claimed that experience of directors enables them to guide, steer and monitor the firm more effectively.

In other words, their knowledge of the industry, its opportunities and threats and their connections to the industry participants based on their experience enables them to contribute substantively in the firm performance. However, empirical studies examining the effect of industry specific experience of board members on firm performance is scarce in the literature (yenesew, 2012; Bonsa.2015).



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## 2.6. Study Gap

Corporate Governance is important in all organizations regardless of their industry, size or level of growth. Good Corporate Governance has a positive economic impact on the Institution in question as it saves the organization from various losses such as those occasioned by frauds, corruption and similar irregularities. Besides, it also spurs entrepreneurial innovation enabling the organization to better seize the economic opportunities that come its way. The main Corporate Governance themes that are currently receiving attention are adequately separating management from the board to ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles ensuring that the board has an effective mix of independent and non-independent directors and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board. Good Corporate aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. Thus, the main tasks of Corporate Governance refer to: assuring corporate efficiency and mitigating arising conflicts providing for transparency and legitimacy of corporate activity, lowering risk for investments and providing high returns for investors and delivering framework for managerial accountability.

The studies cited in the literature mostly concentrate on the developed countries whose strategic approach and Corporate Governance systems are not similar to that of Ethiopia. In Ethiopia, study done on corporate governance themes are very few in number for instance Minga (2008) explores the legal and other external institutional frameworks of corporate governance in Ethiopia and concluded that the overall standard of corporate governance was disappointing in the country. Fekadu (2010) also analyzed the ownership structure of corporations in the country and determined that the separation between ownership and control (or shareholders and management of the corporations) is growing in Ethiopia, however, there are weaknesses in the Commercial Code to protect minority shareholder rights.

In addition, Ahemad (2012) studied Ethiopia company law and found that the Ethiopia company law does not have adequate legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence and remuneration of board of directors in share companies.



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More specifically research report submitted on Ethiopian banking sectors for example unpublished master thesis Yenesew. (2012) Studied to investigate the corporate governance mechanism and their impact on performance of commercial banks in Ethiopia.

Generally, earlier studies have made immense contributions to the corporate governance practice and financial performance; they were inclined towards the developed countries and mixed the state and privately owned financial institutions. However, developing countries received little attention in various literatures on this issue, at the same time majority of these studies were in banking industry.

Consequently, a design feature that works well in one country/industry may not work in another. As Bird (2005) noted this may be referred to as the No-One-Size-Fits-All (the NOSFA) principle, i.e., the best policy and administrative design for each country/industry has to be determined carefully in light of the conditions and objectives of that country/industry. Specifically in Ethiopia, though few studies have been conducted on corporate governance mechanism and financial performance, to the best of researcher's knowledge, no prior study has focused on private commercial banks in Ethiopia. This is therefore, this study needs to conduct separate study on the effects of governance practice on financial performance of selected private commercial banks in Ethiopia.

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# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1. Research Design

The study is aimed to examine the effect of corporate governance characteristics on financial performance of sample private commercial banks in Ethiopia. To achieve this objective, the researcher conduct explanatory and descriptive type of research with mixed research approach (qualitative and quantitative) to identify the causal relationship of the stated variables. The study used more of quantitative approach. Panel data study design combining the attributes of cross-sectional (inter-firm) and time series (inter-period) is used to take an advantage of obtaining reliable estimates of parameters.

## 3.2. Sources and Method of Data Collection

Applicable data's for the study was collected from primary and secondary sources. Primary data was obtained via in depth interview conducted with board secretariat because they are assumed most knowledgably part about the issue under investigation of the specified samples banks. In-depth interview in the form of structured interview is used to generate genuine information and to explore individuals and groups attitude towards the board member characteristics like, board size, board educational qualification, board member industry specific experience, board gender diversity and audit committee. Secondary data sources were panel data of audited financial statements of sample private commercial banks from National Bank of Ethiopia for the year ranging from 2008 to 2015 for the measurements of financial performance like; ROA and ROE of the respective banks. This study encompasses eight years data as the rational, because the result of the study incorporates recent ideas which are not incorporated by prior studies. Gujarati (2004p640-641) highlighted some of the merits of panel data over cross-sectional or time-series data as follows:

"*it explicitly accounts for unobservable and constant heterogeneity across individual units, that is, specific to each samples (management style, business strategy, etc.); it helps to capture cross-sectional specific attributes and time-series properties of units; unlike time-series, panel data gives more informative data, more variability, more degrees of freedom, less co linearity among variables, and more efficiency; and it minimizes the bias caused from aggregation in pure time series data*".



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## 3.3 Target population and Sampling Methods

The target population of the study is all private commercial banks in Ethiopia. The total numbers of private commercial banks are sixteen (NBE Annual report 2014). However, because of lack of eight years data which is necessary for the analysis as most of them are established recently, the number of sample banks is reduced to seven. Thus; to come up with the best estimate of the parameters, the study was employed purposive sampling technique and conducted on sample size of seven Private commercial Banks which means 44 percent of the total population size is taken as sample of the study to be conducted.

Sample Private banks include; Awash International bank S.c(AIB), Dashen bank S.C, United bank S.C(UB), Abyssinia Bank S.C,(BOA), Cooperative Bank of Oromia S.C (CBO), NIB International bank S.C(NIB) and Wagagen bank S.C (WB),

These sample Private commercial banks are selected purposively and taken as rational as it can encompasses year of data collection (eight years data) and provides evidence about the title before seven years back as compared with the current day so as to get the aggregate effect on firms financial performance.

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## 3.4. Method of Data analysis and Presentation

As the study focus to examine the causal relationship between corporate governance characteristics and financial performances and to test its causal effect, the study employed descriptive, correlation and multiple panel linear regression data analysis method. The descriptive statistics quantitatively describe the important features of the variables using mean, maximum, minimum and standard deviations. The correlation analysis used to identify the relationship between the independent and dependent variables using Stata correlation analysis. The correlation analysis shows only the degree of association between variables and does not permit the researcher to make causal inferences regarding the relationship between variables (Mack et al 2005). Therefore, multiple panel linear regression analysis used to test the hypothesis and the effect of independent variables on dependent variables. Whether the assumptions of CLRM are viable or not, the study also incorporated diagnostic tests for, heteroscedasticity, autocorrelation, and normality and Multicollinearity.

## 3.5. Description of variables and measurements

In this study, the variables were selected based on alternative theories and previous empirical studies related to corporate governance and firm performance. In accordance with the theory and empirical studies, the independent, dependent and control variables of the study were identified in order to investigate the impact of corporate governance practice on firms' financial performance.

### 3.5.1 Dependent variables

The dependent variables are variables that are used to measure the financial performance of sample private commercial banks. To measure the financial performance, the most frequently used profitability measurements will be employed i.e. accounting measurements of profitability (Erhardt et al., 2003; Abu-Tapajeh, 2006; Bathula, 2008; Ibrahim et al., 2010;). Those are;

1. **Return on Asset (ROA) -** It measures the overall efficiency of management and provides an idea as to how efficient management is at using its assets to generate earnings.

   **ROA = <u>Profit after Tax / Total Asset</u>**

2. **Return on Equity (ROE)** - measures a firm's financial performance by revealing how much profit a company generates with the money shareholders have invested. It shows how well the shareholders' funds are managed and used to generate return.

   **ROE = <u>Profit after Tax / Total Equity</u>**

### 3.5.2. Independent variables

The independent variables are variables that are selected to examine the effect of corporate governance characteristics on financial performance of the sample private commercial banks. The independent variables of the study were board member size, board gender diversity, board members educational qualification, board members industry specific experience, and size of audit committee. The definition and measurements of the variables are as follows:

**Board size**- It can be defined as the number of directors sitting on the board. According to agency theory limiting board size to a particular level is generally believed to be improving financial performance. The reason is that the benefit of larger boards is outweighed by the poor communication and decision making when the board size is too large. Previous studies found negative effect of board size on performance (Jensen, 2003; Sanda et al., 2005; Aduesi, 2011; Al-Manaseer et al., 2012). In this study board size is expected to negatively influence performance.

**Board gender diversity**- Board gender diversity is measured as the ratio of female directors divided by the total number of board members. Due to the varying size of boards, a ratio variable provides a more accurate and comparable measurement thus the percentage was taken. Board gender diversity is considered to improve company performance since it provides new insights and perspectives (Bathula, 2008; Erhardt et al., 2003). Female board members will bring diverse viewpoints to the boardroom that is not possible with all male directors.

**Board members educational qualifications**- It is measured by the proportion of board members who had college degree or higher to the total number of board members. Educational qualification is an important determinant of board effectiveness. According to Rose (2007) as long as board members have a university degree/or equivalent skills, board members have sufficient human capital in order to understand information that is provided by management. Educational qualifications of individual board members are important for board decision making (Amran 2011; Yasser; 2011). The monitoring role expected to be effectively implemented if the board members are qualified and experienced. Competent board members expected to reduce agency problem.

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**Board members industry specific experiences**- It is measured as the actual number of directors who served in other banks earlier in the same capacity divided by the total number of board members. It is important for banks to have skilled and experienced directors on board particularly prior experience in the same sector and position. The effectiveness of board members monitoring role depends on their expertise to fully comprehend a firm's business situation (Kroll et al., 2008). Thus, industry specific experience of board members expected to improve bank's performance by helping boards effectively reducing agency problem.

**Audit committee size**- Audit committee size refers to the total number of banks' audit committee members. The size of audit committee affects banks' performance. Small size audit committee ensures effective monitoring (Kyereboah-coleman, 2007; Aldamen et al., 2011). It is likely that small size audit committees effectively communicate in the financial reporting process and problems to be resolved easily.

### 3.5.3 Control variables

In this study three specific control variables are included to account their potential influence on banks' financial performance in order to know the selected explanatory variables effect on sample private commercial banks' financial performance. The selected control variables are sampled private commercial banks' size, growth rate and leverage. The control variables are selected based on previous studies.

### 3.5.4. Specifications of empirical research model

To estimate the impact of corporate governance practices on the financial performance of sample private commercial banks in Ethiopia, the following general empirical research model will be employed.

$$\mathbf{Y_{it} = \beta_0 + \Sigma\beta_K X_{it} + \varepsilon_{it}}$$

Where:

$\mathbf{Y_{it}}$= represents the dependent variables (ROA and ROE) of sample private commercial bank i for time period t.

$\boldsymbol{\beta_0}$ = is the intercept

$\boldsymbol{\beta_K}$ = represents the coefficients of the Xit variables.

$\mathbf{X_{it}}$= represents the explanatory variables (BoSIZE, BoFD, BoEDQ, BoISEx, BoACS, BaSIZE, BaLEV and BaG) of private bank i for time period t.

$\mathbf{E_{it}}$ = is the error term

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

$\mathbf{ROA_{it}}$ = β0 + β1 (BoSIZEit) +β2(BoFDit) + β3(BoEDQit) + β4(ISExit) +β5(BoACSit) +β6(BaSIZE it) + β7(BaLEVit) + β8(BaGit) +εit--(1)

$\mathbf{ROE_{it}}$ = β0 + β1 (BoSIZEit) +β2(BoFDit) + β3(BoEDQit) + β4(BoISExit) +β5(BoACSit) +β6(BaSIZE it) + β7(BaLEVit) + β8(BaGit) +εit--(2)

### 3.5.4.1. Dependent Variables

ROAit= Return on Asset for ith sample private commercial bank and time period t.

ROEit = Return on Asset for ith sample private commercial bank and time period t.

### 3.5.4.2. Independent variables

BoSIZEit= Board Size for ith sample Private commercial bank and time period t.

FDit = Female Directors on the board for ith sample Private commercial bank and time period t.

BoEDQit =Board members educational qualification for ith sample Private bank and time period t.

BoISExPit = Board member's industry specific experience for ith sample Private bank and time period t.

BoACSit = Audit committee size for ith sample Private commercial bank and time period t.

### 3.5.4.3. Control variables

BaSit= Bank size for ith sample Private commercial bank and time period t.

BaLEVit= Bank leverage for ith sample Private commercial bank and time period t.

BaGit= Bank growth rate for ith sample Private commercial bank and time period t.

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**Table 3.5: Summary of study Variables and Measurements**

| S.No | Variables | Description | Measurements |
|---|---|---|---|
| **Dependent** | | | |
| 1 | ROA | Return on Asset | profit after tax to total asset |
| 2 | ROE | Return on equity | Profit after tax to total equity |
| **Independent** | | | |
| 1 | BoSize | Board member size | Total members sitting on the board |
| 2 | BoEDQ | Board members educational qualification | Proportion of board members who had college degree and above to board size |
| 3 | BoISEx | Board members industry specific experience | Actual number of members who had industry specific experience |
| 4 | BoFD | Board member female directors | Proportion female directors to total board size. |
| 5 | BoACS | Board member audit committee size | Actual number of board members sub audit committee |
| **Control Variables** | | | |
| **6** | **BaLEV** | Bank Leverage | Total debt to Total Equity |
| **7** | **BaG** | Bank Growth | Change of total revenue |
| **8** | **BaSize** | Bank Size | Natural Logarithm of total asset |



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# CHAPTER FOUR

# RESULT AND DISCUSSION

This chapter presents results of the findings obtained using different methods of data analysis. It contains results for quantitative data analysis using descriptive statistics which summarizes the important features of the study variables using mean, standard deviation, minimum and maximum, correlational analysis which shows the degree of relationship among the study variables, and the classical multiple linearity regression outputs results and tests for the viability of the model using stata data analysis technique.

## 4.1. Descriptive statistics of the study variable

This section of the study presents the summary statistics of each variable. The study variables include; dependent, independent and control variables. The explained variables used in this study to measure the financial performance of sample private commercial banks are return on asset and return on equity whereas the independent variables in this study are board member size, board member educational quality, board member female directors/gender diversity/, board member industry specific experience and board member audit committee size. Besides to the above explanatory variables, the study used three control variables bank leverage, bank size and bank growth.

The study control variables are computed; bank leverage as the total debt for each year of the sample private commercial banks divided by the total equity, bank size as natural log of year-end total asset for sample private commercial banks whereas the bank growth is measured by the change in total revenue. Accordingly; the output for descriptive statistics is tabulated here under in table 4.1.



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**Table 4.1.: Descriptive statistics result for study variables**

| Variable \| | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| ROA \| | 56 | .0279107 | .0068232 | .004 | .04 |
| ROE \| | 56 | .2071429 | .060834 | .04 | .36 |
| BoSize \| | 56 | 10.01786 | 1.531382 | 7 | 12 |
| BoEDQ | 56 | .9321429 | .083355 | .8 | 1 |
| BoISEx \| | 56 | 1.910714 | .8372419 | 1 | 3 |
| BoFd \| | 56 | .0928571 | .0683763 | 0 | .2 |
| BoACS \| | 56 | .7142857 | .4558423 | 0 | 1 |
| BaLEV \| | 56 | 6.435179 | .8565618 | 5.03 | 8.39 |
| BaG \| | 56 | .3014286 | .0643973 | .2 | .49 |
| BaSize \| | 56 | 8.83925 | .5857515 | 7.35 | 9.89 |

*Source: Stata Summary statistics output.*

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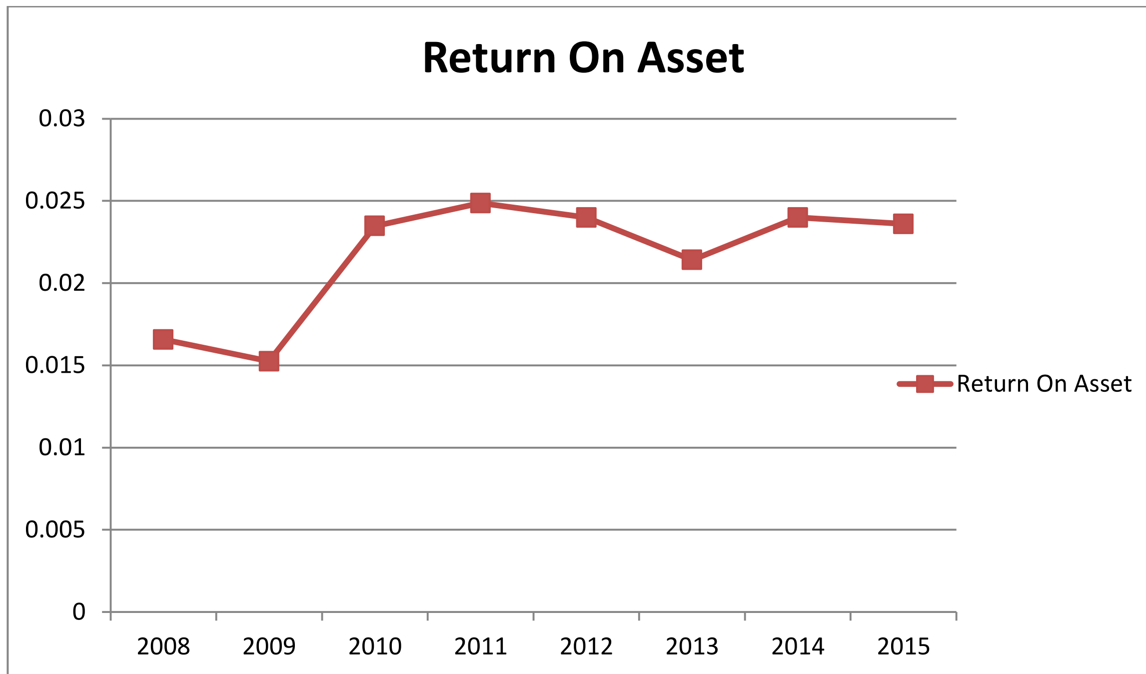
As presented in table 4.1 above; ROA indicates that on average the private commercial banks in Ethiopia managed positive 2.8 percent profit after tax for the last eight years. In another word, this means Ethiopian private commercial banks earns 2.8 cents for Birr 1 invested in asset at year end. From the sample private commercial banks in Ethiopia, the most profitable bank earns 4.0 cents while the least profitable incurs loss of 0.4 cents for Birr 1 invested on asset. Sample private commercial banks return on asset deviates by 0.6 percent only. The standard deviation for ROA of Sample private commercial banks during the study period is 0.6 percent.




*Source: Financial report of sample private commercial banks and own computation*

***Figure 4.1: Trend of ROA during the study Period***

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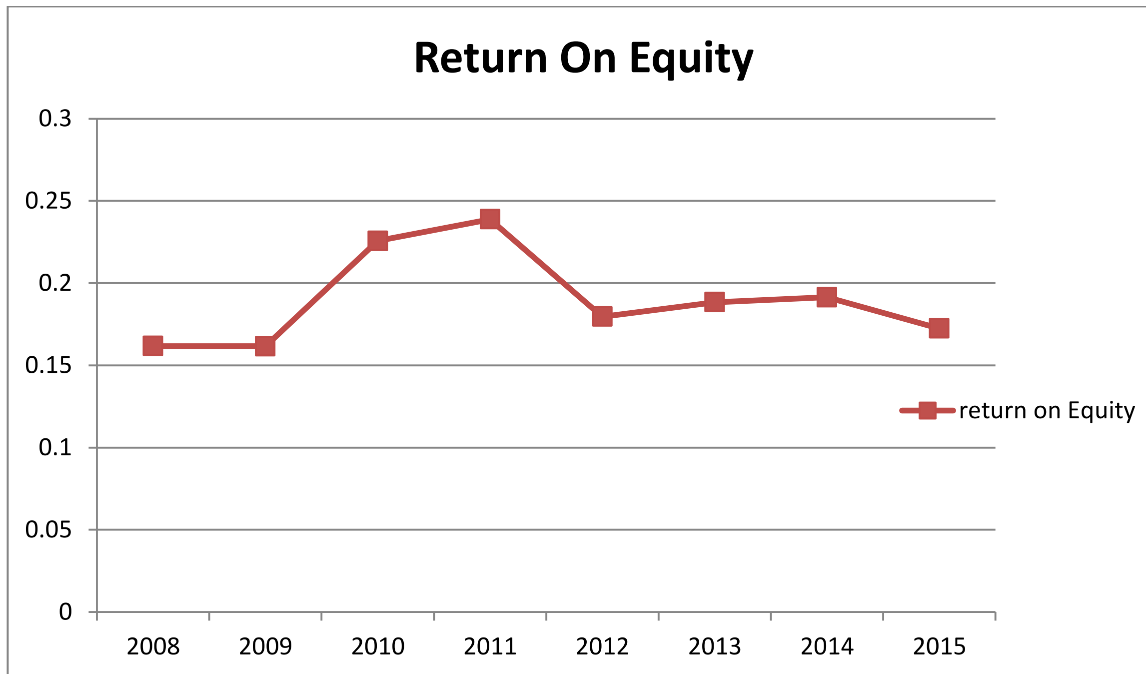
From figure 4.1: we observe the ROA for the sample private commercial banks fluctuates during the study period. The highest earning on asset is recorded as of 2011GC for 2.5 percent while the lowest earning is as of 2009GC for 1.5 percent Generally; the net earning on asset for the sample private commercial banks in Ethiopia for the last eight years is positive profit.

ROE indicates that on average the private commercial banks in Ethiopia managed to getpositive 20 percent profit after tax for the last eight years.

In another word, this means Ethiopian private commercial banks earns 20 cents for Birr 1 invested on equity at year end. The maximum earning of the sample banks net profit by investing on equity is 36 percent while the least profitable incurs loss of 4 cents for Birr 1 invested on equity. The return on equity for the sample private commercial banks in Ethiopia during the study period is deviated from the average value by 6 percent.




*Source: Financial report of sample private commercial banks and own computation*

***Figure 4.2: Trend of ROE during the study Period***

As we observe from figure 4.2; Similar to return on asset, the maximum return on equity is recorded as of 2011GC for 19 percent while the lowest earning is as of 2009GC for 16 percent. On average the net earning on equity for the sample private commercial banks in Ethiopia for the last eight years is managed with 19 percent average profit.

The average size Board member for sample banks during the study period is 10 with the maximum and minimum member size of 12 and 7. The board member size for each banks during the study period is deviated from the average value by 1.5 which means there is no this much deviation.

In a case of gender diversity which means female directors in a board member, the average value of female's size is 1 with a maximum and minimum number of 2 and 0 female board member within the sample private commercial banks in Ethiopia. The size of females in a board member for each bank during the study period is deviated by 0.7.



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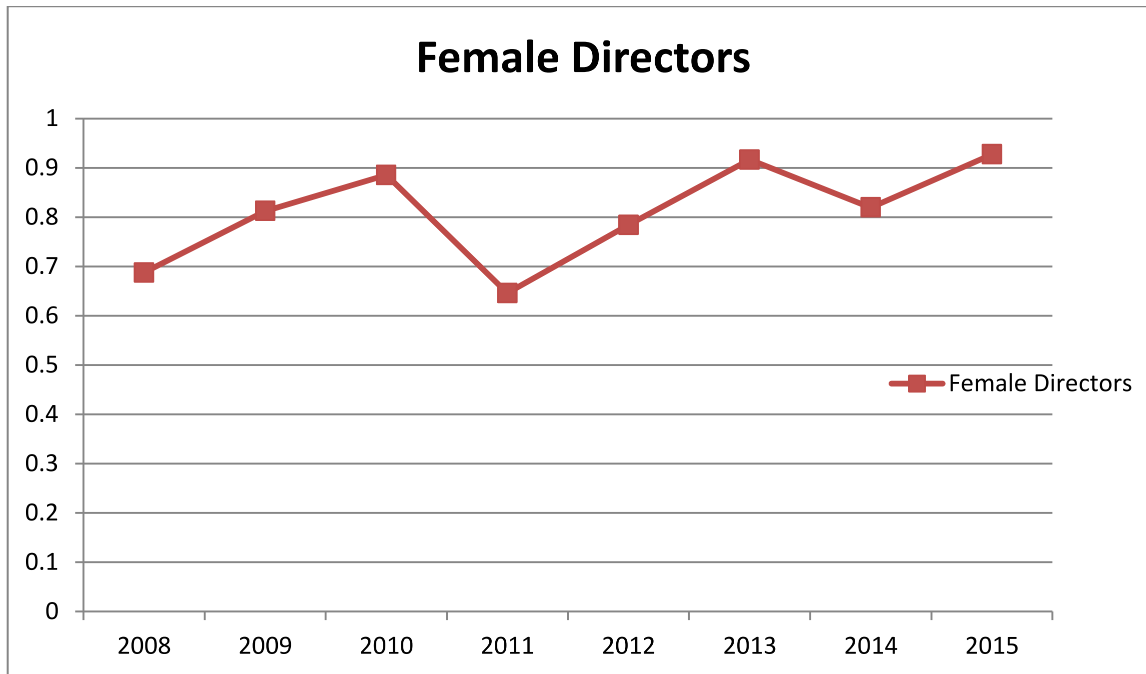



*Source: Annual report of each sample banks and own computation.*

***Figure 4.3: Trend of gender diversity in Board members for each bank during study period.***

As indicated on Figure 4.3: the female directors size in board members of the sample private commercial banks during the study period is increasing on average by 1. As shown graphically, Ethiopian private commercial banks are encouraging the issue of gender diversity.

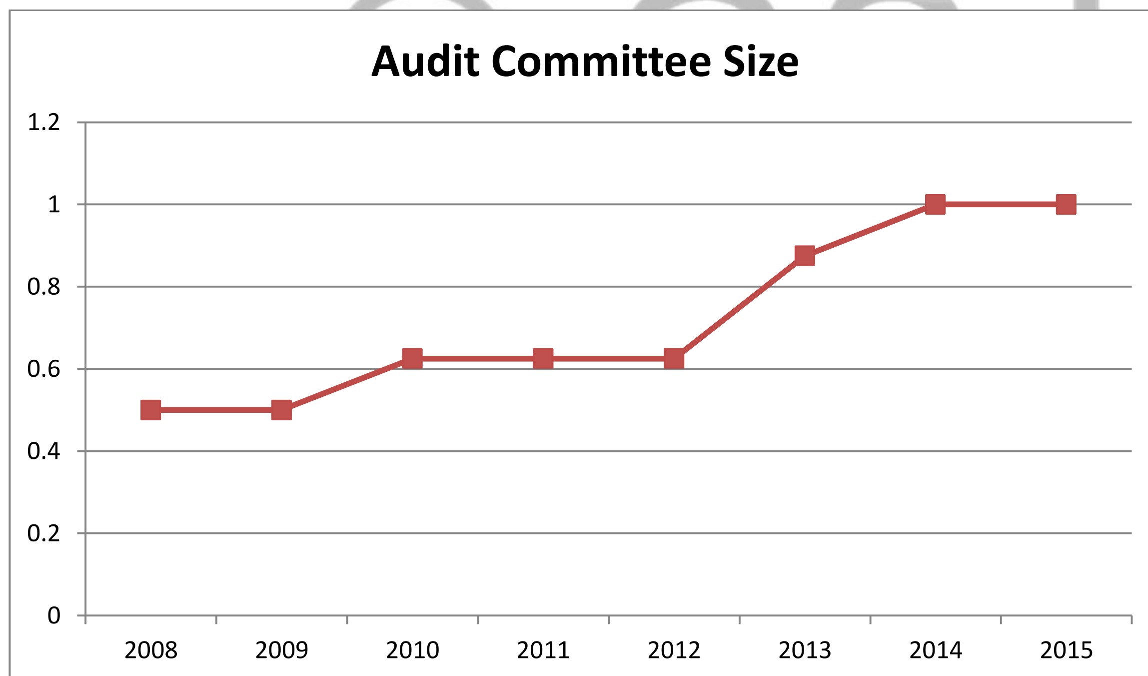
When we look in to board member educational quality for the sample private commercial banks in Ethiopia, the average number of board members with degree and above during the study period are 9 while the maximum and minimum size of board members with the same educational quality is 12 and 7 respectively. Educational quality for each bank is deviated by0.8 from average value.

The proportion of board members who served in other banks earlier in the same capacity for private commercial banks in Ethiopia for the last eight years reveals 19 percent.

This means on average private commercial banks in Ethiopia has 2 board members those served in the same capacity at similar firm. The maximum and minimum number of board members with industry specific experience is 3 and 1 respectively.

Board members who served with the same capacity at similar industry for sample private bank is deviated by 0.83 percent from average value. This means, Ethiopian private commercial banks has at least one board member with a maximum of five who served in the same capacity at similar industry.

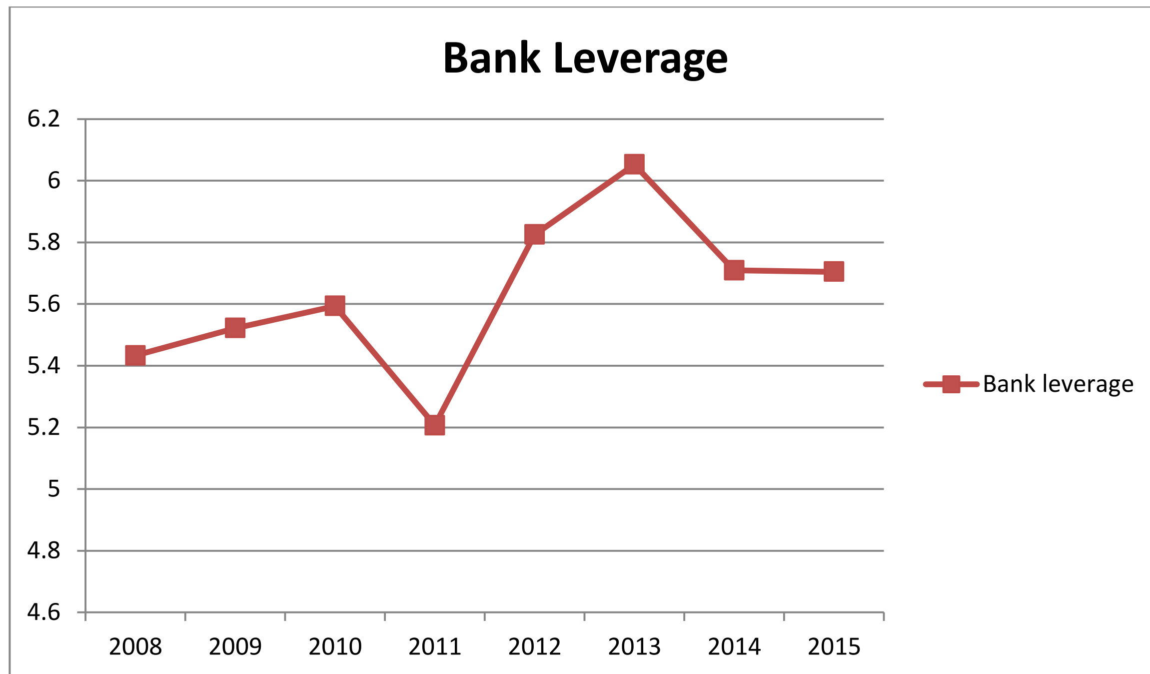
Though having audit committee is one of the manifestation of good corporate governance, there is private commercial banks without board member sub audit committee. The average mean value of board member audit committee size for Private commercial banks in Ethiopia is 1(0.71875) with the maximum and minimum of 1 and 0. We observe the board members sub audit committee for Ethiopian private commercial banks reveals averagely increasing during the study period. The standard deviation of audit committee size is 0.45 from average value. From the descriptive statistics result on 4.1: there were banks without board member audit committee.




*Source: Board of directors profile, Annual report of each banks and Own computation.*

**Figure 4.4: Trend of Board member sub Audit committee size.**

The leverage of sample private commercial banks in Ethiopia is 645 percent on average as measured by debt to equity with a maximum and minimum of 839 percent to 503 percent respectively. There is higher deviation, 85 percent, from the mean value of financial leverage.

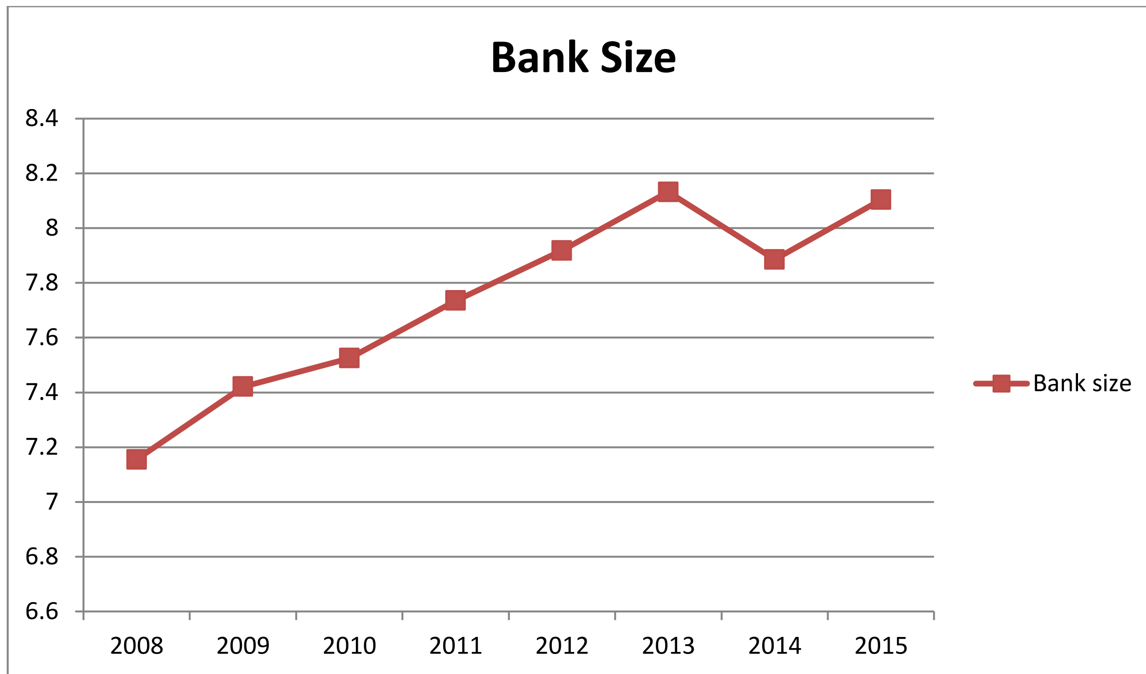



*Source: Financial statement of each bank and own computation.*

***Figure 4.5: Trend of bank leverage during the study period***

As indicated on figure 4.5: the proportion of the total debt to total equity of sample private commercial banks in Ethiopia shows declining during the study period. However; the average value bank leverage during the study period figures 645 percent.

The mean value of bank size as measured by the natural logarithm of total asset is 8.8 having a maximum value of 9.89 and minimum values of 7.35. The standard deviation of bank size among the sample private commercial bank is 0.58.




*Source: Financial statements of each bank and own computation.*

***Figure 4.6: Trends for Bank size during study period.***

As shown on figure 4.6: the bank size measured to the natural logarithm of each bank total asset at year end for sample private commercial banks looks consistently increasing during the study period.

Finally, the sample commercial banks growth has 30 percent average value for the study period. The standard deviation of bank growth rate indicates 6.4 percent variation among the sampled commercial banks. The maximum and minimum values of bank growth rate are 49 percent and 20 percent respectively among the sampled private commercial banks in Ethiopia.



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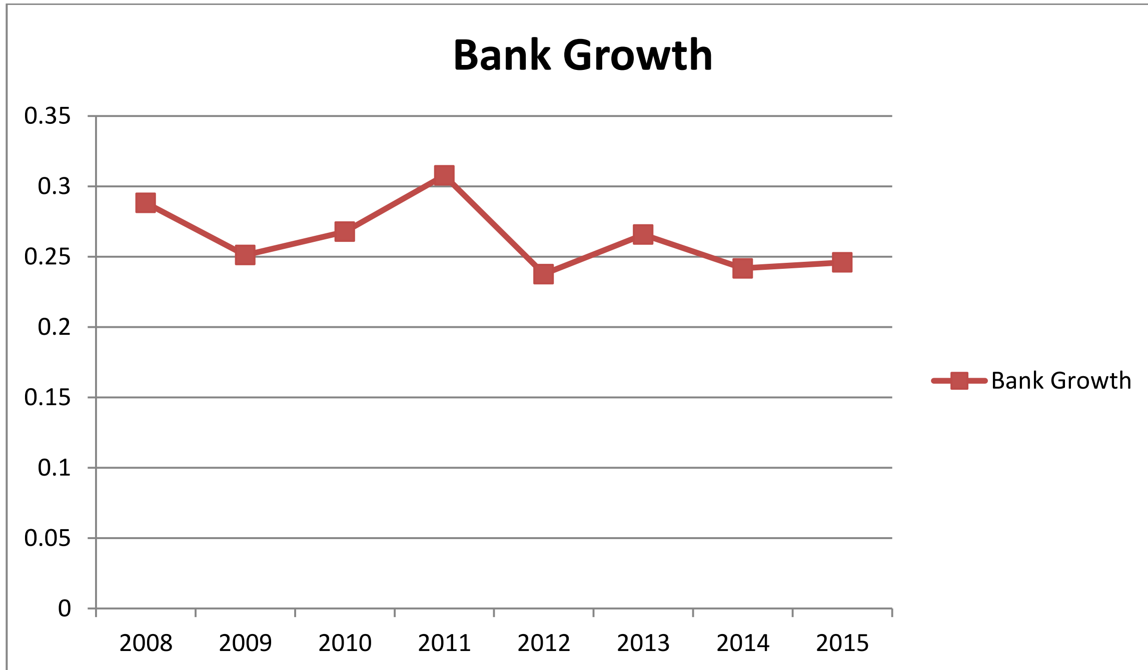


*Source: Financial statements of each bank and own computation*

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**Figure 4.7: Trend for Private commercial bank growth during the study period**

From figure 4.7: the sample private commercial banks growth as measured to change of the total revenues during the study period indicates increasing in constant term. This indicates, Ethiopian private commercial banks were getting to generate positive, but stable revenue after 2012GC.

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## 4.2. Correlation Analysis of the study Variables.

This part of the study presents the result and discussion of the summary statistics of coefficient correlation among the dependent and explanatory variables used to explain the effect of corporate governance on financial performance of sample private commercial banks in Ethiopia. To identify the coefficient relationship between the explanatory variables Stata summery statistics correlations were employed. This correlation coefficient shows the extent and direction of the relationship of the corporate governance variables and financial performance of the sample private commercial banks in Ethiopia measured by the return on asset and return on equity.

This section has two sub-sections; the first sub section presents the correlation analysis between return on asset and corporate governance variables and the second sub-section is about the relationship between return on equity and corporate governance variables. Brooks (2008), stated that Correlation among variables measures the degree of linear relationship between two or more variables.

To find the association of the explanatory variables with financial performance measures, stata summary statistics correlation was used. The Values of the correlation coefficient always ranged between positive one and negative one. A correlation coefficient of positive one indicates that a perfect positive association between the two variables; while a correlation coefficient of negative one indicates that a perfect negative association between the two variables. A correlation coefficient of zero, on the other hand, indicates that there is no linear relationship between the two variables.

The correlation coefficients are checked for the existence of high collinearity between the explanatory variables. Since the correlation analysis shows only the degree of association, it is followed by multiple regression analysis.



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### 4.2.1. Correlation analysis of ROA and Corporate governance Variables.

Table 4.2 Presents the association between return on asset and board members size, board member educational qualification, board member industry specific experience, board gender diversity, board member sub-audit committee size, and control variables used in this study like; bank leverage, bank size and bank growth of the sample private commercial banks in Ethiopia. Besides to this, this table also indicates the linear relationships between each independent variables and control variables used in this study.

### Table 4.2: Correlation analysis of ROA and Corporate governance variables.

| | ROA | BoSIZE | BoEDQ | BoISEx | BoFD | BoACS | BaLEV | BaG | BaSize |
|---|---|---|---|---|---|---|---|---|---|
| ROA \| | 1.0000 | | | | | | | | |
| BoSIZE \| | -0.3148 | 1.0000 | | | | | | | |
| BoEDQ \| | 0.0403 | -0.0046 | 1.0000 | | | | | | |
| BoISEx \| | -0.0237 | 0.1431 | -0.5573 | 1.0000 | | | | | |
| BoFD \| | 0.2130 | 0.2791 | 0.0091 | 0.1792 | 1.0000 | | | | |
| BoACS \| | -0.3240 | -0.2530 | 0.0068 | 0.1225 | -0.4750 | 1.0000 | | | |
| BaLEV \| | -0.4233 | -0.0130 | -0.0108 | -0.0356 | -0.0990 | 0.0155 | 1.000 | | |
| BaG \| | 0.0562 | -0.1017 | -0.1950 | -0.0246 | 0.1138 | -0.1531 | -0.2439 | 1.0000 | |
| BaSize \| | 0.1762 | -0.2778 | -0.0846 | 0.3925 | 0.0311 | 0.1248 | 0.2683 | -0.2017 | 1.0000 |

***Source: Stata correlation result based on the data obtained from sample private commercial banks.***



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Table 4.2 above outlined the coefficients of board member size, board members industry specific experience, board members sub audit committee size, and bank leverage is negatively correlated return asset at -0.31, 0.023, -0.32, and -0.42 respectively. This negative correlation coefficient indicates, when return on asset of the sample private commercial banks increase, the above stated corporate governance variables move in opposite direction. Among the study variables audit committee size and bank leverage has comparatively good association with return on asset at -0.35 and -0.31 respectively. In contrast to this, return on asset has positive association with bank size, bank growth, Board gender diversity and board member educational qualification.

As indicated on table 4.2 there is no strong association between corporate governance variables and return on asset. In the same manner there is no high correlation between explanatory variables. Bank leverage, bank size and bank growth were used as a control variable of the study. Among these control variables bank leverage has good association with return on asset at -0.42. Hair et al. (2006) stated that Multicollinearity problem exists when the correlation coefficient among the variables are greater than 0.9 but in this study there is no correlation coefficient that exceeds or even close to 0.90. Accordingly, in this study there is no problem of Multicollinearity.

### 4.2.2 Correlation analysis of ROE and Corporate governance variables

Table 4.3: below indicates the likely relationship between return on equity of the sample private commercial banks and board members size, board member educational qualification, board members industry specific experience, board members sub audit committee size, board gender diversity. In addition the table also shows the association between return on equity and control variables bank leverage, bank size and bank growth of the sample private commercial banks in Ethiopia.



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**Table 4.3: Correlation analysis of ROE and Corporate governance variables**

| | ROE | BoSIZE | BoEDQ | BoISEx | BoFD | BoACS | BaLEV | BaG | BaSize |
|---|---|---|---|---|---|---|---|---|---|
| **ROE \|** | **1.0000** | | | | | | | | |
| **BoSIZE \|** | **-0.6474** | **1.0000** | | | | | | | |
| **BoEDQ \|** | **0.0758** | **-0.0046** | **1.0000** | | | | | | |
| **BoISEx \|** | **-0.3764** | **0.1431** | **-0.5573** | **1.0000** | | | | | |
| **BoFD \|** | **-0.0574** | **0.2791** | **0.0091** | **0.1792** | **1.0000** | | | | |
| **BoACS \|** | **-0.1152** | **-0.2530** | **0.0068** | **0.1225** | **-0.4750** | **1.0000** | | | |
| **BaLEV \|** | **0.2667** | **-0.0130** | **-0.0108** | **-0.0356** | **-0.0990** | **0.0155** | **1.0000** | | |
| **BaG \|** | **0.0317** | **-0.1017** | **-0.1950** | **-0.0246** | **0.1138** | **-0.1531** | **0.2439** | **1.0000** | |
| **BaSize \|** | **0.3035** | **-0.2778** | **-0.0846** | **0.3925** | **0.0311** | **0.1248** | **0.2683** | **-0.2017** | **1.0000** |

***Source: Stata correlation result based on the data obtained from sample private commercial banks.***

As table 4.3 above outlined, board member size, board gender diversity, board members industry specific experience and board member sub audit committee size has negative association with return on equity. Among all explanatory variables of the study, board member size has strongly associated with return on asset at -0.64. Similarly, among three control variables, return on equity has good association with bank Size and bank leverage of the sample private commercial banks at 0.30 and 0.26 respectively. The correlation coefficient matrix also shows as there is no strong correlation among the explanatory variables of the study.



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Lastly, the correlation analysis shows only the degree and directions of relationship of the study variable and financial performance proxy by ROA and ROE. It does not permit the researcher to make causal inferences regarding the relationship between the identified variables.

Therefore, it is difficult to explain the relationship between corporate governance variables and performance measures by controlling the influence of some selected variables using correlation analysis. As a result the main analysis is left for regression analysis that overcomes the drawbacks of correlation analysis.

## 4.3. Data Regression Result and Discussion

This part of the dissertation presents the results and discussions of the data regression output. In order to examine the effect of corporate governance on sample Ethiopian private commercial banks financial performance measured by return on asset and return on equity two multiple panel linear regression models were estimated. The regression analysis enables the researcher to empirically test the proposed hypothesis and to achieve the research objective. The method of least squares has some very attractive statistical properties that have made it one of the most powerful and popular methods of regression analysis (Gujarati, 2004). Thus, by conducting the appropriate diagnosis tests OLS estimation method was used in the two models.

$\mathbf{ROA_{it}} = \beta0 + \beta1(BoSIZEit) + \beta2(FDit) + \beta3(BoEDQit) + \beta4(BoISExit) + \beta5(BoACSit) + \beta6(BaSIZE\ it) + \beta7(BaLEVit) + \beta8(BaGit) + \varepsilon it$--(1)

$\mathbf{ROE_{it}} = \beta0 + \beta1(BoSIZEit) + \beta2(BoFDit) + \beta3(BoEDQit) + \beta4(BoISExit) + \beta5(BoACSit) + \beta6(BaSIZE\ it) + \beta7(BaLEVit) + \beta8(BaGit) + \varepsilon it$--(2)

### 4.3.1. Diagnostics test for CLRM model Estimation assumptions

Before getting to run the two linear regression models, the data sets were tested for the classical linear regression model assumptions. Brooks (2008) suggests four main assumptions that must be met before utilizing OLS estimation in order to validly test the hypothesis and estimate the coefficient. The classical linear regression model assumptions and their diagnostic tests are discussed below.

### 1. Test for heteroscedasticity problem

This is known as the assumption of homoscedasticity or It has been assumed thus far that the variance of the errors across the explanatory variables is constant. If the errors do not have a constant variance, they are said to be heteroscedasticity. To test this assumption the Breusch-Pagan / Cook-Weisberg test for heteroscedasticity test was used having the null hypothesis of Heteroskedasticity. The chi-square tests statistic for heteroscedasticity result for both models shows prob. chi-square of 0.1395 and 0.1166. In this study Chi-Square versions of the test statistic for both models gave the same conclusion that there is no evidence for the presence of Heteroskedasticity, since the p-values were in excess of 0.05.

#### 2. Test for Autocorrelation

Brooks (2008), third assumption said that the CLRM‟s disturbance terms is the covariance between the error terms over time (or cross-sectional, for that type of data) is zero. In other words, it is assumed that the errors are uncorrelated with one another. In addition he said that, if the errors are not uncorrelated with one another, it would be stated that they are "auto correlated" or that they are "serially correlated". However; test for autocorrelation (any form of relationship between the consecutive values of any variable) was not made because data analysis technique as stated in the third chapter is panel cross sectional type which avoids this problem by ignoring the time effect.



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### 3. Test for Normality

Another third important diagnostic test conducted in this dissertation is the normality assumption (i.e. the normally distributed errors). Brooks (2008) stated that the normality assumption is required in order to conduct single or joint hypothesis tests about the model parameters. One of the most commonly applied tests for normality is the **Shapiro-Wilk W** test and it uses the property of a normally distributed random variable that the entire distribution is characterized by the first two moments - the mean and the variance Brook (2008). In case of this study, the researcher used **Shapiro-Wilk W** normality test to test the null hypothesis of normally distributed errors assumptions.

As shown in Table 4.4 since, p-Value of all study variables reveals above significant 0.05 percent and the **Shapiro-Wilk W** statistic is not significant. This means that the p-value given at the bottom of the normality test screen should be bigger than 0.05 to not reject the null of normality at the 5percent level so, the residuals are normally distributed in this study, concluded that there is no the problem of normality on ROA and ROE model

**Table 4.4: Shapiro-Wilk W test for normal data - ROA**

| Variable \| | Obs | W | V | Z | Prob>z |
|---|---|---|---|---|---|
| **ROA \|** | 56 | 0.95975 | 2.070 | 1.562 | 0.05910 |
| **ROE** | 56 | 0.98305 | 0.872 | -0.294 | 0.61580 |
| **BoEDQ \|** | 56 | 0.97496 | 1.288 | 0.543 | 0.29350 |
| **BoISEx \|** | 56 | 0.99567 | 0.223 | -3.225 | 0.99937 |
| **BoFD \|** | 56 | 0.99598 | 0.207 | -3.382 | 0.99964 |
| **BoACS** | 56 | 0.96534 | 1.783 | 1.241 | 0.10723 |
| **BaLEV \|** | 56 | 0.97246 | 1.417 | 0.748 | 0.22732 |
| **BaG \|** | 56 | 0.97058 | 1.514 | 0.890 | 0.18679 |
| **Basize \|** | 56 | 0.96354 | 1.876 | 1.350 | 0.08846 |

Source: stata Shapiro Wilk test and data collected

**Notes: W: stands for; -----------------**

**V: Stands for; ------------------,**

**Z: stands for; -------------------**



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### 4. Test for Multicollinearity of the explanatory variables

This is another assumption of CLRM which concerned with the relationship existing between independent variables. If an explanatory variable is an exact linear combination of the other independent variables, then we say the model suffers from perfect collinearity, and it cannot be estimated by OLS Brooks (2008). This assumption holds true where there is high, but not perfect, correlation between two or more explanatory variables Cameron and Trivedi (2009), Wooldridge (2006) as cited in Samuel (2015). How much correlation causes Multicollinearity however, is not clearly defined. While Hair *et al* (2006) argue that correlation coefficient below 0.9 may not cause serious Multicollinearity problem. Malhotra (2007) stated that Multicollinearity problem exists when the correlation coefficient among variables is greater than 0.75. Kennedy (2008) suggests that any correlation coefficient above 0.7 could cause a serious Multicollinearity problem leading to inefficient estimation and less reliable results. This indicates that there is no consistent argument on the level of correlation that causes Multicollinearity.

According to Gujarati (2004), the standard statistical method for testing data for Multicollinearity is analyzing the explanatory variables correlation coefficients (CC); condition index (CI) and variance inflation factor (VIF).

Therefore, in this study correlation matrix for five of the independent variables and three control variables of the two models shown above in the table 4.2 and 4.3 correlation coefficient analysis matrix had been estimated and there is no evidence for the existence of Multicollinearity problem between the explanatory variables used in this study.

### 4.4. Fixed effect Versus Random effect model

It is also necessary to determine whether the fixed effect or random effect approach is appropriate. A common practice in corporate governance research is to make the choice between both approaches by running a Hausman test. The null hypothesis of the test was that the random effect method is the preferred regression method. This therefore, the result for the Hausman test for ROA and ROE indicates Prob>chi2 =0.2525and 0.4395 respectively. Hence, p-Value is insignificant at 5 percent, the null hypothesis is not rejected for both models and the regression analysis is conducted using cross-sectional random effect test. Accordingly, cross section random effect is employed to estimate the relationship between the financial performance of sample private commercial banks in Ethiopia and corporate governance variables used in this study.



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The output of the two regression models that have been estimated to examine the effect of corporate governance characteristics on the financial performance of selected Ethiopian Private commercial banks measured by ROA and ROE are shown below in table 4.6 and 4.7.

As outlined in the table below, the $R^2$ for the two models is 53 percent, and 69 percent, for ROA and (ROE) respectively. Which means 53 percent of the variation in return on asset was explained by the set of explanatory and control variables used in this study. In the same manner, for the second model, 69 percent of variation in dependent variable (ROE) was explained by the set explanatory and control variables included in this study. In another word, 47 percent and 31 percent of variation in ROA and ROE is left unexplained due to the determinants not included in this study respectively. The selected variables in this study good explained the variations of return on equity, return on asset orderly as long as this variation is explained only by including five explanatory and three control variables. The $R^2$ results indicate the overall goodness-of-fit of the two models used in this study.

After adjustment of the explanatory power of the two models, adjusted $R^2$ values, is 45 percent and 64 percent respectively. This indicates that 45 percent and 64 percent of the variation in the Ethiopian private commercial banks return on asset and return on equity was explained by the explanatory and control variables in each model. The adjusted $R^2$ measures how well the model fits the data by taking into account the loss of degrees of freedom associated with adding extra variables. Therefore, the two model best fits the data. Besides to this, the F-statistic result implies the overall significance of variables. In other words the significance of each models slope parameters jointly.

The F-statistics of both models indicates 6.68, and 13.50 respectively and the null hypotheses of the two models were rejected at 1 percent significance level. Therefore, each model variables are jointly significant. The three models adequately describe the data. Here one can infer from the results of R-squared and F-statistics that the implemented models of this research are well fitted that corporate governance mechanisms have a significant effect on banks' financial performance.



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**Table 4.6: Random Effect Estimate Regression result for ROA model**

| Variables | Coefficient | Standard Error | Z | Prob>Z |
|---|---|---|---|---|
| C | .05462 | . 0187131 | 2.92 | 0.004 |
| BoSize \| | -.0017336 | .0005309 | -3.27 | 0.001* |
| BoEDQ \| | .0001202 | .010731 | 0.01 | 0.091*** |
| BoISEx \| | -.0004174 | .0012341 | -0.34 | 0.735 |
| BoFD \| | .008879 | .0122628 | 0.72 | 0.469 |
| BoACS \| | -.0062486 | .0018219 | -3.43 | 0.001* |
| BaLEV \| | -.0040955 | .000869 | 4.71 | 0.000* |
| BaG \| | -.0141573 | .0117386 | -1.21 | 0.228 |
| BaSize \| | .0028967 | .0015099 | 1.92 | 0.055*** |

Effect Specification:- Cross- section random effect

**O**bservation = 56
F. Statistic = 6.68
Prob. F statistic = 0.0000
R-squared = 0.5319
- Adj R-squared = 0.4522

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*Source: Stata Regression result based on data obtained from sample banks and own computation*

**Note**: ***, **, and * indicates significant at 10%, 5% and 1% respectively.

**Table 4.7: Random Effect Estimate Regression result for ROE model**

| Variables \| | Coefficient | Standard Error | Z | Prob>Z |
|---|---|---|---|---|
| C \| | .2902337 | .1342858 | 2.16 | 0.031 |
| Bosize \| | -.0226507 | .0038096 | -5.95 | 0.000* |
| BoEDQ \| | .1357226 | .0770059 | -1.76 | 0.078*** |
| BoISEx \| | .0369908 | .0088562 | -4.18 | 0.000* |
| BoFD \| | .1040912 | .0879983 | 1.18 | 0.237 |
| BoACS \| | -.0243619 | .0130739 | -1.86 | 0.062*** |
| BaLEV \| | .0120406 | .0062358 | 1.93 | 0.053*** |
| BaG \| | -.0136598 | .0842367 | -0.16 | 0.871 |
| BaSize \| | .0311544 | .0108354 | 2.88 | 0.004** |

**Effect Specification:- Cross-section random effect**

**Observation = 56**
**F. Statistic = 13.50**
**Prob. F. statistic = 0.000**
**R-squared = 0.6968**
**Adj. R-squared = 0.6451**

*Source: Stata Regression result based on data obtained from sample banks and own computation*

Note: ***, **, and * indicates significant at 10%, 5% and 1% respectively

Table 4.6 above presents, return on asset for the sample private commercial banks in Ethiopia during the study period has negative relation and significant at 1percent level of significant with board member size, Board member audit committee size, and control variable bank leverage. In contrast to this, ROA of sample banks reveals positive relation and significant at 10 percent level of significant with Board member educational qualification, and control variable Bank size during the study period.

In the same manner, table 4.7 above indicates return on equity for the sample Ethiopian private commercial banks during the study period has negative relation and significant at 1percent significant level with Board member size during the study period. Similarly, it had negative relation with board

member sub audit committee size and significant at 10 percent level of significance. In contrast to this, ROE of the sample banks has positive relation with Board member educational qualification and control variable bank leverage and significant at 10 percent level of significant. In the same manner, it also positively related and significant at 10 percent level of significant with board member industry specific experience and control variable Bank leverage.

## 4.5. Corporate governance characteristics: Result and Discussion

## Board member size

Table 4.6 and 4.7 above presents a negative and statistically significant relation between boards size (BoSIZE) and return on asset at 1 percent level of significance. It has also negative relation with return on equity at 1 percent level of significance. It implies that the numbers of board of directors' are negatively related with the sample Ethiopian private commercial banks' financial performance. In other words, the higher the number of board of directors members sitting of sample private commercial banks, the lower is their financial performance achievement measured by return on asset and equity during the study period as explained by explanatory variables included in this study is and vice versa. The result suggested that small or moderate board member are more effective in monitoring and controlling banks management and it helps to reduce agency costs.

The finding supports the argument of Jensen (1993) that an increase in board size leads to less effective monitoring due to coordination and process problems inherent in large board size. The result is also consistent with prior studies which argue that coordination, communication and decision-making problems increasingly impede company performance when the number of directors increases (Adusei, 2011; Al-Manaseer et al., 2012).

Having too large or too small board member size is not advisable to accordingly discharge the responsibility of the board as required. The best rationalization specified is that, if the number of board members is high, it creates conflict of interest between the board members and paves the way for the existence of free rider among board of directors, which erodes the wealth of the bank. Banks need to have reasonable numbers of directors in order to well perform the board task effectively on the first hand and have well managed with sound financial performance on the other hand. National bank of Ethiopia set the maximum number of director to be 12.

The outcome of the analysis of both quantitative and qualitative data indicates that, there is a negative relationship between board size and financial performance of sample commercial banks in Ethiopia. Therefore, both the regression and qualitative result support the hypothesis. (Yenesew, 2012;)



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Previous empirical Studies such as Brown and Caylor (2004) suggested a board member size between 6 and 15 members whilst Jensen (1993) argues for 7 or 8 members. Lipton and Lorsch (1992) are in support of a board size of between 8 and 9. It would be ideal to have a board size of between 5 and 7 members to ensure efficiency of operations and for an improved performance. Additionally, this study's descriptive result also indicates that the board members size of sample private commercial banks in Ethiopia ranges from 7 to 12 with a mean value of 10.

Remember the first hypothesis which states that there is a negative association between board size and financial performance. The final result of this study when the financial performances of sample Ethiopian commercial banks were measured by return on asset and return on equity and explained by the explanatory and control variables included in this study supports this hypothesis.

Therefore based on this ground, the null hypothesis which states there is significant negative relationship between board member size and private commercial banks financial performance in Ethiopia is supported by this data.

Subjective question was also asked through interview to qualitatively check as to whether respondents believe the number of board size affects banks performance. All respondents said ''yes'' and they have justified that too large or too small board is not appropriate to run the responsibility of the board. The best justification given is that, if the number of board members is large, it creates conflict of interest between the board members, which erodes the wealth of the bank. Banks need to have reasonable numbers of directors in order to perform the board task effectively. National bank of Ethiopia set the maximum number of director to be 12. The outcome of the analysis of both quantitative and qualitative data indicates that there is a negative relationship between board size and financial performance of sample commercial banks in Ethiopia. Therefore, both the regression and qualitative result support the hypothesis.

## Board members Educational Qualification

As table 4.6 and 4.7 above shows, board members those with degree and higher educational qualification has positive relation and significant at 10 percent level of significant with sampled private commercial banks in Ethiopia's financial performance as measured by ROA and ROE determined by the explanatory and control variables included in this study. The result of this dissertation indicates that the increase in the proportions of directors who had college degree or higher have a significant positive influence on the financial performance of private commercial banks in Ethiopia proxy by ROA and ROE and vice versa.

In other words the higher the number of directors who had college degree or above sitting on the board the higher the financial performance of sampled commercial banks in Ethiopia and vice versa. This suggests that the presence of qualified directors on the board plays a crucial role in carrying out the boards monitoring responsibility and in improving financial performance and similarly; by affecting the oversight and monitoring role of boards of directors. The result support the view that educational qualification is potentially important since the ability to seek and interpret appropriate information is essential for the efficient operation and the effective control or guidance of management by boards of directors. The qualification of directors in this study as measured by the percentage of directors who had college degree or higher significantly influences sampled private commercial banks financial performance in Ethiopia.

The null Hypothesis 2 predicts that there is a significant positive relationship between board members educational qualification and sample private commercial banks financial performance. Since the null hypothesis is rejected in all the three financial performance measures the result is in line with the proposed alternate hypothesis. Thus, there is a significant positive relationship between board members educational qualification and financial performance of commercial banks in Ethiopia. This result supports the finding revealed by Bonsa, (2015), Yenesew, (2012); Amran (2011) and Yasser (2011). Board of directors those are a compassion of members those had degree and/or higher educational qualification are better in managing the business operation and controlling agency problem and then entails the firms to have a sound financial performance than less educated counterparts this reduce agency cost.

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Thus, educational qualifications of board of directors (BoEDQ) play a great role in board decision making. Both the regression result and the qualitative result indicate that educational qualification of directors is important factor to improve financial performance of the sampled private banks in Ethiopia.

Respondents were asked to reflect their view as to whether they feel that educational qualification of directors have any significant effect on their monitoring and controlling efficiency. For interview questions, all of the respondents said "yes". The best justification given is that directors need to have a minimum of college degree in order to understand the reports given by the banks management. Boards of directors make decision after analyzing and carefully understanding the technical documents submitted by management as a report. In addition, they stated that education plays a key role not only in the banking sector but also in any other sector of the economy. Thus, educational qualifications of directors play a great role in board decision making.

Both the regression result and the qualitative analysis indicate that educational qualification of directors is important factor to improve financial performance of the sampled commercial banks in Ethiopia. Thus, the hypothesis is supported.

## Board members industry specific experience

In case of board members who had industry specific experience, the result of this study revealed that it has negative relation, but statistically insignificant with financial performance of the sampled Ethiopian private commercial banks as measured by ROA explained by the study variables included in this study. The negative relation with coefficient of variation -.0004174 indicates ROA of sampled private commercial banks in Ethiopia negatively influenced by the coefficient amount when one addition of board member with industry specific experience undertaken. In contrary to the null hypothesis 3; which predicts board members industry specific has significant positive relation with financial performance of private commercial banks in Ethiopia, the result of this study pointed out the negative and statistically insignificance relation between sampled private commercial banks as measured by ROA and board members industry specific experience. This is may be due to the number of members having such experience or educational back ground. Thus; the data no support the null hypothesis and the alternative hypothesis is accepted.

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In contrast to this, board members industry specific experience (BoISEx) has positive relation and significant at 1 percent level of significant with sampled Ethiopian private commercial banks as measured by return on equity explained by explanatory and control variables included in this study. The positive coefficient of board members industry specific experience 0369908 indicates that sampled private commercial banks financial performance as measured by ROE explained by the study variables included in this study is positively influenced as one more board member who had industry specific experience is added to the existing board members.

Partially, hypothesis 3; which predicts board members industry specific has significant positive relation with financial performance of private commercial banks in Ethiopia, is supported by the result of the study. This finding is consistent with the findings of Yenesew, (2012); Bonsa(2015). They argue that board members those had members who had industry specific experience can easily manage and overcome the risks arising from as long as they had experience in similar capacity from similar industry.

Respondents were asked a subjective question about directors' prior experience in banking industry. The respondents in which the board consists directors who had prior experience in banking industry said "yes" and justified that directors who had an experience in the banking industry is highly important because they knows what is undertaken in the banking business and that play a great role in the board decision making. The qualitative result and regression result based on return on asset performance measures support this variable hypothesis.

## Board gender diversity

Regarding to board members female directors (BoFD), the regression result of this dissertation shows positive relation with financial performance of sampled private commercial banks in Ethiopia as measured by return on asset and return on equity explained by the study variables included in this dissertation. However; it is not statistically significant at all level of significance outlined in both models. Hypothesis 4 of this dissertation predicted that board member female directors are significant and positively associated with financial performance of sample private commercial banks in Ethiopia. The statistically insignificant coefficient of the percentage of women directors does not support this hypothesis. Therefore, this study result does not support the view that gender diversity leads to superior banks financial performance.

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Some previous studies document a positive effect of the role of women on boards and find that women enhance the quality of decision making and firm performance (Bathula, 2008; Erhardt et al., 2003). In contrary to this, this study does not find a significant positive association between percentages of women directors and sampled private commercial banks financial performance. This may be due to the relatively small proportion of board members who are women (as shown in the descriptive analysis section with average mean value of 0.09), which does not permit them to be powerful enough to make a difference to monitoring.

The finding of this dissertation does not necessarily contradict the notion that women's presence on boards may be useful and positive in general. Nevertheless, the low number of women on the boards of sample Ethiopian commercial banks does not give them sufficient monitoring power. The result is not surprising because other studies that examined the association between proportion of women on boards and firm performance also found insignificant result (Rose, 2007; Habbash, 2010).

In interview question majority of respondents said 'yes' and justified as board gender diversity is important since almost half of the country's population is female, they can represent this significant potential customers and help banks to have links with this potential customers. But, simply the presence of female directors will not improve banks operation and performance unless they are qualified and competent. Whether gender diversity help improve banks operation and performance it depends on factors such as experience, education and assertiveness of female directors.

## Board member sub Audit committee size

In case of Board member audit committee size (BoACS), this study find out the negative relation with Ethiopian sampled private commercial banks financial performance proxy return on asset and return on equity explained by the explanatory and control variables included in this study and statistically significant at 10 percent and 5 percent respectively. The negative coefficient for two measures -.0062486 and -.0243619 of audit committee size indicates the one more addition of the board member sub audit committee negatively influence financial performance of sampled private commercial banks in Ethiopia. In another word; the higher board member audit committee size the lower is financial performance of private commercial banks proxy ROA and ROE.

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For large banks and internationally active banks, an audit committee or equivalent should be required. The audit committee typically is responsible for the financial reporting process; providing oversight of the bank’s internal and external auditors; approving, or recommending to the board or shareholders for their approval, the appointment, compensation and dismissal of external auditors; reviewing and approving the audit scope. and frequency; receiving key audit reports; and ensuring that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other problems identified by auditors. In addition, the audit committee should oversee the establishment of accounting policies and practices by the bank.

It is advisable that the audit committee consists of a reasonable number of board members. At a minimum, the audit committee as a whole should have recent and relevant experience and should possess a collective balance of skills and expert knowledge commensurate with the complexity of the banking organization and the duties to be performed in financial reporting, accounting and auditing (Basel Committee- Enhancing principles of corporate governance).

Null hypothesis 5: of this dissertation predicted Board member audit committee size has significant relation with financial performance of private commercial banks in Ethiopia. Thus; the finding of this study accordingly supports the hypothesis.

This finding is consistent with studies conducted previously by (Jensen & Meckling, 1976);Kyereboah-Coleman, 2007; Aldamen, et al., 2011); outlined that the size of the audit committee negatively influence performance using Ghanaian sample firms. This study result supports the notion that a certain minimum number of board member audit committee members may be relevant to the quality of financial reporting and to enhance financial performance. Free-riding and difficulty to reach in consensus in large groups inversely affect financial performance. Therefore, the finding of this dissertation as financial performance of sample private commercial banks in Ethiopia proxy ROA and ROE including variables used in this study is in line with the proposed null hypothesis.

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Increasing the size of board member sub audit committee will not improve financial performance because it is difficult to reach consensus and make timely decisions due to lack of communications as audit committee size become large. Limiting audit committee size to reasonable number improves audit committee effectiveness. So the finding of this study and the null hypothesis is complied.

For the subjective question majority of the respondents said "no". They justified that increasing the size of audit committee will not improve performance because it is difficult to reach consensus and make timely decisions due to lack of communications as audit committee size become large. Limiting audit committee size to reasonable number improves audit committee effectiveness. So the proposed hypothesis is supported.

## 4.6 Control variable and financial performance: Result and Discussion

This part of the dissertation presents the regression result and interpretation of the three controlling variables association with sampled Ethiopian private commercial banks financial performance proxy ROA and ROE.

### Bank Leverage

Bank Leverage measured as total debt to equity of sample banks, has negatively related and statistically significant at 1percent and 10 percent with sampled Ethiopian private commercial banks financial performance proxy ROA and ROE explained by the above discussed study variables during this study period respectively. The negative relation implies that other thing remain intact 1percent increase in debt financing leads to decrease by 0.4 percent of financial performance proxy ROA. Similarly, to the second measure 1 percent increase in debt financing leads to decrease by 1.2 percent of financial performance proxy ROE.

This result also shows that, higher profits increase the level of internal financing in Ethiopian private banking industry. Besides, the result revealed the suggestions that profitable banks accumulate internal reserves and this enables them to depend less on external funds. Even though, profitable banks may have better access to external financing, the need for debt finance may possibly be lower, if new investments can be financed from accumulated reserves.

This finding is consistent with the pecking order theory that suggests profitable firms prefer internal financing to external financing. Beside, a negative relationship between profitability and leverage was observed in the majority of empirical studies Weldemichael (2012),Rajan and zingales (1995), Amidu (2007), were some of them.

**Bank Growth**

Regarding to bank growth as measured to the total revenue of each bank at the end fiscal year during the study period, Ethiopian sampled private commercial banks growth had negative relation with financial performance of the same industry as measured by return on asset and return on equity. But, the negative relation of bank growth of two measures is insignificant. The negative relation of Banks growth (BaG) implies that banks can grow without necessarily being profitable. This may be explained by ineffective supervision of operations as a bank expands, giving room for resource dissipation this will negatively influence performance.



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In another word, this finding also suggests that Ethiopian private commercial banks were increasing their yearly paid up capital in line with national banks amendment and total deposit which is not appropriate complied yearly returns.

**Bank Size**

Bank size (BaSize) as measured by the natural logarithm of yearend total assets for sampled private commercial banks in Ethiopia during the study period has positive relation with financial performance of the same industry as measured by ROA and ROE. It is statistically significant at 10% and 1% level of significance for return on asset and return on equity respectively. The positive relation implies that large banks were well suiting their assets to generate profit. In another word, it can be explained large size banks have economies of scale and scope which pushes the bank to good efficiency.

The result of this dissertation regarding to Bank size suggests that sample private commercial banks in Ethiopia's financial performance measured by ROA and ROE explained by the variables included in this study reveals sample private banks were well utilizing their asset so as to increase their financial performance.

The impact of bank size on profitability is uncertain a prior for the fact that on the one hand, increased diversification implies less risk and hence a lower required return, and on the other hand, bank size takes into account differences brought about by size such as economies of scale. For large firms their size permits them to bargain more effectively, administer prices and in the end realize significant higher prices for the particular product.(Misker, 2015).

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**Table 4.8 Summary of Test and results**

| S.No. | Study variables | Actual relation with | | Tests level of significance | | |
|---|---|---|---|---|---|---|
| | | ROA | ROE | 10% | 5% | 1% |
| 1 | Board members size | Negative | Negative | | | X |
| 2. | Board members education quality | Positive | Positive | X | | |
| 3. | Industry specific experience | Negative | positive | | | 1% ROE only |
| 4 | Female directors | Positive | negative | Insignificant at both measures | | |
| 5 | Audit committee size | Negative | Negative | X | | X |
| **Control Variables** | | | | | | |
| 6 | Bank Leverage | Negative | Positive | X | | X |
| 7 | Bank growth | Negative | Negative | Insignificant at both measures | | |
| 8 | Bank Size | Positive | Positive | X | | X |

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In sum, the data regression result indicates that the direction and the extent of impact of some corporate governance characteristics are based on the performance measure being examined. All corporate governance variables do not influence the two financial performance indicators in the same direction and their degrees of association may also differ. This is because financial performances indicators are not equally indicate the performance of banks, because financial performance indicators used different formulas with their limitations to indicate the banks performance. For example return on asset indicates the overall efficiency of management and reflects whether the bank uses assets effectively in order to produce its income. Return on equity provides information as to how well managers are using the funds invested by the shareholders without considering the effect of liability of the firm. Due to this the direction and the extent of relationship between corporate governance characteristics and financial performance are not the same for all performance measures.

# CHAPTER FIVE

## CONCLUSSION AND RECOMMENDATION

In the previous chapter, the results of the study were presented and discussed. This chapter mainly deals with the conclusions and recommendations of the study based on the findings. Hence, section 5.1 presents major findings of the study; section 5.2 presents Conclusion; section 5.3 presents the recommendations; section 5.4 presents limitation of the study and finally section 5.5 presents Avenues for Future Research and Improvements.

### 5.1. Major findings and Implication

To this end, the thesis come up with negative and statistically significant relation between board members size and sampled private commercial banks financial performance proxy ROA and ROE explained by study variables included in this study. The negative relation of board member indicates that the higher the size of board member the lower is financial performance of private commercial banks as measured by return on asset and return on equity.

In the same manner; board members educational qualification had positive and statistically significant with sampled private commercial banks financial performance proxy ROA and ROE explained by study variables included in this study. This indicates that private banks with a composition of high educational quality board members positively influences financial performance as measured by return on asset and return on equity.

Board members who had industry specific experience had negative relation, but statistically insignificant with sampled private commercial banks financial performance proxy ROA and ROE. However, it has positive and statistically significant relationship with return on equity. In another word, industry specific experience helps sample private commercial banks financial performance as measured by return on equity. Even though board member industry specific experience it positively influence shareholders fund, the result is inconclusive.



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The other finding of this study was regarding to the gender diversity in board member. This deals with female board of directors. The result of this finding indicates that female directors in sample private commercial banks financial performance as measured by return on asset and return on equity positive, but statistically insignificant.

The insignificant coefficient of female directors may be due to very small numbers of female directors as observed in the descriptive statistics which does not permit them to be powerful enough to make a difference to monitoring.

Finally; this study found that board member audit committee size had negative significant relationship with sampled private commercial banks financial performance proxy ROA and ROE explained by study variables included in this study. This result indicates that the higher the number of audit committee size the lower financial performance of sampled private commercial banks in Ethiopia as measured by return on asset and return on equity. Increasing the size of board member sub audit committee will not improve financial performance because it is difficult to reach consensus and make timely decisions due to lack of communications as audit committee size become large. Limiting audit committee size to reasonable number improves audit committee effectiveness.

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### 5.2. Conclusion

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

This study was conducted on the effect of corporate governance characteristics on Ethiopian private commercial banks financial performance proxy ROA and ROE using seven Ethiopian private commercial banks with a data set covering eight years period from the year 2008 to 2015. In order to achieve this objective, five hypotheses have been developed. To address research hypotheses and achieve the broad research objective, the study used mixed research approach. Based on the results of the descriptive statistics, correlation and regression analysis the researcher made the following conclusions.

Based on the descriptive statistics the financial performance of sample commercial banks are 2.8 percent and 21 percent as measured by return on asset, and return on equity respectively. This is therefore; the sampled Ethiopian private commercial banks are performing better in utilizing shareholders capital. The sample private commercial banks board is characterized by the presence of qualified directors which indicates on average 93% of board of directors had college degree and above educational quality. But, the board member is dominated by male and consists of low numbers of directors who had prior experience in the banking industry.

The correlation analysis indicates that most of the corporate governance characteristics significantly correlated with the financial performance of sample Ethiopian private commercial banks. But, the correlations of some corporate governance mechanisms differ depend on the indicator used to measure financial performance.

The regression result shows that, board size has a significant negative effect on both return on asset and return on equity. Based on the negative relation of board size, the researcher suggested that the higher board member is not advisable in valuing financial performance of sample private commercial banks. Accordingly, the researcher concludes that board size significantly and negatively influence sample private commercial banks financial performance as measured by return on asset and return on equity explained by the explanatory variables included in this study.



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There is positive, but no statistically significant relation was found between percentage of female directors and financial performance. However, this is due to very small numbers of female directors as observed in the descriptive statistics which does not permit them to be powerful enough to make a difference to monitoring. There were banks without female member of board of directors.

Board members educational qualification significantly and positively influences the financial performance of sample commercial banks. The presence of qualified directors on the board plays an important role in carrying out the boards monitoring responsibility and in improving financial performance. Thus, board members educational qualification has a significant positive effect on banks financial performance. Therefore; the researcher suggested that private commercial banks with a composition of highly educationally qualified board members, the well managed and sound financial performance as measured by return on asset and return on equity explained by the study variables included in this study and vice versa.

Industry specific experience of director negatively and insignificantly influence return on asset. Contrary to this, it has positive and significantly related with return on equity. The result is somewhat inconclusive.

Audit committee size has a negative and statistically significant relation with the two measures financial performances of the sampled private commercial banks. It implied that audit committee size negatively and significantly influence private commercial banks financial performance as measured by return on asset and return on equity.

Thus, small size audit committee is effective to improve financial performance of commercial banks. In general, the findings suggest that banks with effective corporate governance characteristics improve financial performance depending on the financial performance measure being used. Although not all corporate governance variables support the stated hypotheses, the study has achieved its objective by identifying the attributes that help to test the research hypothesis. This study, therefore, finds that agency theory offers a generally good explanation of the associations between corporate governance characteristics with financial performance.

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### 5.3. Recommendation

This dissertation examined the effect of corporate governance characteristics on sampled private commercial banks financial performance as measured by return on asset and return on equity by taking evidence from selected private commercial banks in Ethiopia. On the basis of the findings and conclusions reached, the following recommendations were progressed.

- Special attention should be given for the board size of private commercial banks to be small in number to optimal level with better educational qualification since small board size with better educational qualification is more effective in monitoring managers and help to improve performance.
- This study result revealed that the board members of private commercial banks are highly dominated by male and board gender diversity is very limited in Ethiopian private commercial banks. Thus, there is much to be done to improve the gender balance of boards in Ethiopian private commercial banks with a great care about their qualification and competency. This therefore; the concerned organ should undertake correction after further review of similar studies.
- Lastly, the researcher recommends that Ethiopian private commercial banks should make their audit committee size small to improve their performance. Because, as this study revealed large size audit committee negatively influences performance.

This is therefore; the researcher jointly recommends that Ethiopian private banks should search evidences consistent with this finding and then undertake corrections when necessary regarding to the above issues.



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## 5.4. Limitation of the study

As with any other study, this study is subject to some limitations. In this study the sample banks were selected purposively based on the age and availability of data. This may introduce bias inherent with non-probability sampling method. However, this is because there are only eight commercial banks that have complete data for the study period others are established recently. Therefore, these banks were selected purposively. The other limitation of this research is the financial performance of commercial banks in Ethiopia is only measured by using accounting based measures. Therefore, only the accounting measure of bank performance was used. These can limit the findings of this study

## 5.5. Further research

By taking this study as a stepping stone, it could be possible to come up with a better insight and several extensions to this study are possible. There are several potential avenues for future research and improvements.

First, since there is a general scanty of corporate governance studies that make use of Ethiopia corporate organization. Second, current study has mainly examined the association between internal corporate governance and private commercial banks financial performance.

Future studies can investigate how external corporate governance characteristics, such as the market for corporate control, the managerial labour market, and the law, amongst others, affect banks financial performance by increasing explanatory variables and study periods. In the same manner; further research can examine the corporate governance practice in financial institutions and its effect on financial performance.

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# APPENDICES

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# *Appendix I*

## *Research Questionnaire*

**Part One**

**Questions designed for interview**

1. Do you believe that board size affects financial performance?

Justification:

2. Does the presence of female board of directors' (in terms of board diversity) helps to improve the financial operation and performances?

Why?

3. Does the educational qualification of directors have any significant effect on their monitoring and controlling efficiency?

Give your reasons:

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4. Are there any board members who had earlier working experience on banking business now in your company?

In what ways do these members contribute better than other directors?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

5. Do you believe that increasing the size of audit committee improve their effectiveness?

How?__________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

## Appendix II: Hausman Fixed Random test for model specification

### Model 1: ROA and Study variables

| ---- Coefficients ---- | | | | |
|---|---|---|---|---|
| | (b) | (B) | (b-B) | sqrt(diag(V_b-V_B)) |
| | fixed | random | Difference | S.E. |
| bosize \| | -.0012007 | -.0017336 | .0005329 | .0006643 |
| edq \| | -.0268866 | .0001202 | -.0270067 | .0065197 |
| isex \| | -.0017023 | -.0004174 | -.0012849 | .0009262 |
| fd \| | .0044747 | .008879 | -.0044043 | .0020493 |
| acs \| | -.0045777 | -.0062486 | .0016709 | .0003511 |
| blev \| | -.0020517 | -.0040955 | .0020438 | .0007264 |
| bag \| | -.0148438 | -.0141573 | -.0006864 | . |
| basize \| | .0038525 | .0028967 | .0009558 | .0014524 |

chi2(8) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 10.18 Prob>chi2 = 0.2525

### Model 1: ROE and Study variables

| ---- Coefficients ---- | | | | |
|---|---|---|---|---|
| | (b) | (B)<br>V_B)) | (b-B) | sqrt(diag(V_b- |
| | fixed | random | Difference | S.E. |
| bosize \| | -.0275294 | -.0226507 | -0048787 | .0056422 |
| edq \| | -.1433949 | -.1357226 | -.0076723 | .0646111 |
| isex \| | -.0258031 | -.0369908 | .0111877 | .0086114 |
| fd \| | .1230519 | .1040912 | .0189607 | .0465095 |
| acs \| | -.0212306 | -.0243619 | .0031313 | .0070501 |
| blev \| | .0128659 | .0120406 | .0008253 | .0065823 |
| bag \| | .00449 | -.0136598 | .0181498 | .0121099 |
| basize \| | .0055839 | .0311544 | -.0255705 | .0128029 |

chi2(8) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 7.94 Prob>chi2 = 0.4395

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## Appendix III: Raw data for Sample Banks

| Comp. | Yrs | ROA | ROE | BoSize | Edq | ISEx | FD | Acs | Blev | BaG | BaSize |
|---|---|---|---|---|---|---|---|---|---|---|---|
| AIB | 2008 | 0.030 | 0.24 | 10 | 1 | 1 | 0 | 1.0 | 6.07 | 0.23 | 8.481 |
| AIB | 2009 | 0.020 | 0.19 | 10 | 0.9 | 1 | 0 | 1.0 | 6.49 | 0.23 | 8.768 |
| AIB | 2010 | 0.027 | 0.26 | 9 | 1 | 2 | 0 | 1.0 | 6.58 | 0.44 | 8.980 |
| AIB | 2011 | 0.033 | 0.27 | 9 | 0.9 | 2 | 0.1 | 1 | 6.30 | 0.35 | 9.222 |
| AIB | 2012 | 0.030 | 0.24 | 11 | 1 | 2 | 0.2 | 1 | 6.95 | 0.20 | 9.482 |
| AIB | 2013 | 0.025 | 0.21 | 11 | 1 | 2 | 0.2 | 0 | 7.61 | 0.28 | 9.786 |
| AIB | 2014 | 0.028 | 0.24 | 12 | 0.9 | 2 | 0.2 | 0 | 7.52 | 0.35 | 9.004 |
| AIB | 2015 | 0.026 | 0.20 | 12 | 1.0 | 2 | 0.2 | 0 | 7.92 | 0.20 | 9.135 |
| DB | 2008 | 0.031 | 0.33 | 7 | 0.9 | 1 | 0 | 1.0 | 7.01 | 0.38 | 8.95 |
| DB | 2009 | 0.026 | 0.27 | 7 | 1 | 1 | 0 | 1.0 | 7.71 | 0.23 | 9.18 |
| DB | 2010 | 0.026 | 0.29 | 7 | 1 | 1 | 0.1 | 1.0 | 7.00 | 0.28 | 9.42 |
| DB | 2011 | 0.031 | 0.32 | 7 | 1 | 1 | 0.2 | 1.0 | 6.50 | 0.33 | 9.59 |
| DB | 2012 | 0.037 | 0.36 | 7 | 1 | 1 | 0.1 | 1.0 | 6.58 | 0.28 | 9.77 |
| DB | 2013 | 0.032 | 0.31 | 7 | 0.9 | 2 | 0 | 1.0 | 6.65 | 0.37 | 9.89 |
| DB | 2014 | 0.032 | 0.27 | 9 | 0.9 | 2 | 0 | 1.0 | 7.45 | 0.21 | 9.00 |
| DB | 2015 | 0.029 | 0.25 | 9 | 0.8 | 2 | 0 | 1.0 | 7.47 | 0.29 | 9.12 |
| CBO | 2008 | 0.017 | 0.18 | 11 | 1 | 1 | 0.1 | 1 | 6.30 | 0.33 | 7.52 |
| CBO | 2009 | 0.023 | 0.15 | 11 | 1 | 1 | 0.1 | 1 | 5.04 | 0.35 | 7.93 |
| CBO | 2010 | 0.014 | 0.13 | 11 | 1 | 1 | 0.1 | 1 | 7.26 | 0.31 | 7.48 |
| CBO | 2011 | 0.019 | 0.19 | 11 | 0.8 | 1 | 0.1 | 1.00 | 6.06 | 0.35 | 7.82 |
| CBO | 2012 | 0.022 | 0.19 | 11 | 0.8 | 3 | 0.1 | 1.00 | 7.80 | 0.27 | 8.21 |
| CBO | 2013 | 0.022 | 0.21 | 11 | 0.8 | 3 | 0.2 | 0 | 8.39 | 0.38 | 8.79 |
| CBO | 2014 | 0.035 | 0.24 | 9 | 0.8 | 3 | 0.2 | 0 | 5.74 | 0.30 | 8.93 |
| CBO | 2015 | 0.032 | 0.12 | 11 | 0.8 | 3 | 0.2 | 0 | 5.80 | 0.40 | 9.35 |
| BOA | 2008 | 0.004 | 0.04 | 12 | 1 | 1 | 0 | 1.0 | 7.17 | 0.28 | 8.42 |
| BOA | 2009 | 0.018 | 0.19 | 12 | 1 | 1 | 0 | 1.0 | 7.55 | 0.21 | 8.61 |
| BOA | 2010 | 0.022 | 0.24 | 11 | 1 | 1 | 0 | 1 | 7.73 | 0.30 | 8.75 |
| BOA | 2011 | 0.024 | 0.27 | 9 | 0.9 | 2 | 0.1 | 0 | 7.01 | 0.30 | 8.89 |
| BOA | 2012 | 0.035 | 0.32 | 9 | 0.8 | 2 | 0.1 | 0 | 7.08 | 0.27 | 9.02 |
| BOA | 2013 | 0.026 | 0.24 | 9 | 0.9 | 2 | 0.1 | 1.0 | 7.17 | 0.30 | 9.23 |
| BOA | 2014 | 0.024 | 0.18 | 8 | 0.8 | 3 | 0.0 | 1.0 | 6.37 | 0.29 | 9.33 |

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| BOA | 2015 | 0.021 | 0.16 | 10 | 0.9 | 3 | 0.0 | 1.0 | 6.55 | 0.24 | 9.52 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NIB | 2008 | 0.031 | 0.19 | 12 | 1.0 | 1 | 0.1 | 0 | 5.90 | 0.40 | 8.20 |
| NIB | 2009 | 0.032 | 0.21 | 12 | 1.0 | 1 | 0.2 | 0 | 6.59 | 0.34 | 8.48 |
| NIB | 2010 | 0.034 | 0.22 | 12 | 1.0 | 1 | 0.2 | 0 | 5.51 | 0.31 | 8.69 |
| NIB | 2011 | 0.035 | 0.21 | 11 | 0.9 | 1 | 0.0 | 0 | 5.07 | 0.28 | 8.87 |
| NIB | 2012 | 0.035 | 0.19 | 12 | 1.0 | 2 | 0.1 | 0 | 6.42 | 0.26 | 9.02 |
| NIB | 2013 | 0.031 | 0.17 | 12 | 1.0 | 2 | 0.1 | 1.0 | 6.49 | 0.21 | 9.12 |
| NIB | 2014 | 0.029 | 0.16 | 11 | 1.0 | 3 | 0.1 | 1.0 | 6.47 | 0.25 | 9.28 |
| NIB | 2015 | 0.025 | 0.15 | 11 | 1.0 | 3 | 0.2 | 1.0 | 5.09 | 0.22 | 9.49 |
| LIB | 2008 | 0.034 | 0.23 | 9 | 1.0 | 1 | 0.1 | 0 | 5.19 | 0.31 | 7.35 |
| LIB | 2009 | 0.035 | 0.22 | 9 | 1.0 | 1 | 0.1 | 0 | 5.67 | 0.38 | 7.86 |
| LIB | 2010 | 0.039 | 0.21 | 9 | 1.0 | 1 | 0.1 | 0 | 5.21 | 0.31 | 8.22 |
| LIB | 2011 | 0.040 | 0.24 | 9 | 1.0 | 1 | 0.1 | 1.0 | 5.68 | 0.36 | 8.50 |
| LIB | 2012 | 0.040 | 0.21 | 9 | 1.0 | 2 | 0.1 | 1.0 | 5.57 | 0.27 | 8.81 |
| LIB | 2013 | 0.033 | 0.19 | 9 | 1.0 | 2 | 0.1 | 1 | 5.43 | 0.35 | 8.99 |
| LIB | 2014 | 0.028 | 0.15 | 9 | 1.0 | 2 | 0.1 | 1 | 5.75 | 0.25 | 8.19 |
| LIB | 2015 | 0.026 | 0.15 | 9 | 1.0 | 3 | 0.1 | 1 | 6.13 | 0.37 | 8.68 |
| WB | 2008 | 0.022 | 0.15 | 11 | 0.8 | 3 | 0.1 | 1 | 5.82 | 0.37 | 8.32 |
| WB | 2009 | 0.033 | 0.14 | 11 | 0.8 | 3 | 0.1 | 1 | 5.12 | 0.27 | 8.54 |
| WB | 2010 | 0.035 | 0.18 | 11 | 0.8 | 3 | 0.1 | 1 | 5.46 | 0.21 | 8.66 |
| WB | 2011 | 0.028 | 0.15 | 11 | 0.8 | 3 | 0.1 | 1 | 5.03 | 0.49 | 8.99 |
| WB | 2012 | 0.023 | 0.13 | 11 | 0.8 | 3 | 0.1 | 1 | 6.20 | 0.36 | 9.03 |
| WB | 2013 | 0.028 | 0.15 | 10 | 0.9 | 3 | 0.1 | 1.00 | 6.68 | 0.24 | 9.25 |
| WB | 2014 | 0.020 | 0.12 | 10 | 0.9 | 3 | 0.1 | 1.00 | 6.38 | 0.28 | 9.35 |
| WB | 2015 | 0.026 | 0.18 | 11 | 1 | 3 | 0 | 1.00 | 6.68 | 0.26 | 9.53 |

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