ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESMENT OF CORPORATE GOVERNANCE PRACTICES

IN

THE CASE OF CONSTRUCTION AND BUSINESS BANK S.C.

BY

ABEBE TILAHUN

ID No. SGS7/0270/2006B

December, 2015

ADDIS ABABA, ETHIOPIA

ST. MARY'S UNIVERSITY
SCHOOL OF POST GRADUATE STUDIES

ASSESMENT OF CORPORATE GOVERNANCE PRACTICES IN THE CASE OF CONSTRUCTION AND BUSINESS BANK S.C.

BY

ABEBE TILAHUN

ID No. SGS7/0270/2006B

Advisor: Dr. ELIAS NOUR

A Thesis Submitted to the School of Graduate Studies of the St. Mary's University in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Business Administration

December, 2015

ADDIS ABABA, ETHIOPIA

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies	**Signature**
Advisor	**Signature**
External Examiner	**Signature**
Internal Examiner	**Signature**

Table of Content

Contents Page

Chapter One: Introduction

1.1. Background of the Study 1

1.2. Statement of the Problem..3

1.3. Research questions 4

1.4. Objectives of the Study 4

1.5. Significance of the Study 5

1.6. Scope of the Study 5

1.7. Limitation of the Study 6

1.8. Organization of the research report...6

Chapter Two: Literature Review

2.1 Theoretical Literature Review 7

2.1.1. Corporate Governance: The Concept, Definition and Significant 7

2.1.2. Over View of the Corporate Governance Theories 9

2.1.3. Corporate Governance in Banking Sector 11

2.1.3.1 Laws and Directives on Corporate Governance of banks in Ethiopia 12

2.1.4. Corporate Governance Mechanisms 14

2.1.4.1. Determinants of Internal Corporate Governance mechanisms 14

2.2. Empirical Literature Review 16

2.2.1 Corporate Governance Practical Review 16

2.3 Conceptual Frame Work 19

Chapter Three: Research Design and Methodology

3.1 Introduction 20

3.2 Research Design 20

3.3 Sources of Data 21

3.4 Populations..21

3.5 Sample Frame 21

3.6 Sampling Technique 21

3.7 Sample Design and Sample Size 22

3.8 The Research Instruments and Data Collection Procedures 23

3.9 validity of instruments 24

3.10 Reliability analysis 24

3.11 Method of data analysis and presentation...25

3.12 Ethical Consideration..25

Chapter Four: Presentation and Discussion of the Data

4.1. Questionnaire Survey Results 26

4.1.1. Response Rate 26

4.1.2 General Background of the Respondents..27

4.1.3 Concept of Corporate Governance 29

4.1.3.1Responses Regarding Corporate Governance of the Bank 29

4.1.3.2 Board Issues 37

4.1.3.3 Issues regarding management supervision..44

4.1.3.4 Issues regarding committees of the board...48

4.2 Analyses of Interview Data 51

Chapter Five: Summery of Findings, Conclusion and Recommendation

5.1 Summary of Findings...54

5.2 Conclusions...55

5.3 Recommendation 56

Reference

Appendix

Acknowledgements

First of all my greatest gratitude goes to our heavenly father and provider **GOD** for everything He has done in each and every one of my lives. Next my humble and heartfelt thanks also extend to my advisor, Dr. Elias Nour who has given me his unreserved help and guidance. My sincere thanks also go to the staffs of Construction and Business Bank who devoted their time to complete the questionnaire and to make the interview that served as study material for this research. Finally, I want to express my deepest thanks for my families and friends who encouraged me by providing moral and material support.

Lists of figures

Figures	Page No.
Figure 2.1	19
Figure 4.1	28

Lists of Tables

Table's **Page No.**

Table 3.1 Sample Size Determination 23

Table 3.2 Reliability analysis 24

Table 4.1 Gender of Respondents 27

Table 4.3 Marital status of Respondents 27

Table 4.3 Age of Respondents 28

Table 4.4 Job position of Respondents 28

Table 4.5 Educational Qualification of Respondents 29

Table 4.6 Experience of Respondents 29

Table 4.7 Responses on background of Corporate Governance 31

Table 4.8 Responses on the role of stakeholders 33

Table 4.9 Responses on disclosure and transparency 35

Table 4.10 Responses on Obstacles of Corporate Governance 37

Table 4.11 Responses on board activity intensity 39

Table 4.12 Responses on role and responsibility the board 42

Table 4.13 Responses on efficiency and effectiveness of the board 44

Table 4.14 Responses on management supervision 47

Table 4.15 Responses on the Audit committee of the board 50

Acronyms

BCBS	Basel Committee on Banking Supervision
BOSIZ	Board Size
BOMEE	Board Meeting
BOCOM	Board Composition
EEC	European Community Corporate Governance
GATT	General Agreement on Tariffs and Trade
HSB	Housing and Savings Bank
NBE	National Bank of Ethiopia
OECD	Organization for Economic Cooperation and Development
SPSS	Statistical Package for the Social Sciences
SOX	The Sarbanes-Oxley Act
WTO	World Trade Organization

Abstracts

This study was conducted to evaluate the extent to which corporate governance practices are applied in the Construction and Business Bank. Internal corporate governance mechanism was the critical focus of the study. A descriptive research approach was employed to achieve the goal of this research. All the management members and employees of the Bank were used as a target population of the study. A sample of the responding staff was drawn from all the head office processes, twenty city branches and five from outline branches, which is a total of 192 participants, were involved in the study. In order to get relevant data from the target population questionnaire and interviews were used. The data collected through questionnaire were analyzed using descriptive analysis techniques and the qualitative data were analyzed using explanation. Furthermore, the qualitative data (data from interview) were analyzed together with the quantitative one to triangulate the results found from the questionnaire. In this respect, generally the finding result portrayed that the culture of corporate governance in the CBB still has a setback and needs improvements. The finding of the study also disclosed that the board and the management of the bank are not effective in discharging their roles and responsibilities. In addition weak legal controls and law enforcement within the industry and weak relationship between executive's managements and employees of the bank are possible barriers for the implementation of good corporate governance within the bank. As a result, based on the major findings, the study reached a certain conclusion and presented some possible recommendations so as to alleviate the problems.

Key words: *Corporate Governance, Bank*

CHAPTER ONE
INTRODUCTION

1.1. BACKGROUND OF THE STUDY

The role of corporate governance in today's business environment is extremely large because it has a direct effect on the problems associated with the financial crisis of the company. Because of this the significance of corporate governance around the world has attracted the attention of regulators, academician and practitioners due to the widely held belief that profitability of a firm has been influenced by corporate governance (Cornett, Gou, Akhter, 2006), and also good corporate governance enhances investor goodwill and confidence and boosting the economic health of the corporation's (Coleman, 2006). Good corporate governance adds significant value to firm performance. On the other hand, weak corporate governance structure affect the performance of the firm and also major cause of failure of many well performing companies such as Enron, WorldCom, and Tyco International etc. Good governance assures the integrity of financial reports and has long term reputational effect.

Banks are especially important institutions in any economy; they are an important source of finance to businesses. Their role becomes more important to new and existing businesses. Financial resource like any other economic resources is believed to be the critical input in any country's development endeavor (Jonathan R. and Maureen O'Hara 2003). This resource is considered to be one of the most critical factors impeding the socio economic development of countries like Ethiopia. Commercial banks play a very important role in the development of the national economy, to the extent that the financial system is very fundamental to the proper functioning of a market economy and also that good governance is distinct and most important issue to the development of financial sector (Business Environment Group, 1998).

The financial sector especially the banking sector is highly vulnerable to governance problem. So that sound corporate governance system is essential for a healthy operation of the banking system and the integrity of financial markets as well. In general the performance, in particular the profitability of financial institutions has been highly influenced by corporate governance practices (Cornett, Gou, Akhter, 2006); weak application of corporate governance is considered to be a bad indicator of how the company is run. Therefore constantly checking the appearance of the financial institutions under corporate governance mechanism is very important and a great deal of concern of today's dynamic business environment (Cornett, Gou, Akhter, 2006).

Construction and Business Bank S.C. (CBB) is a wholly government–owned public enterprise and successor of the Housing and Savings Bank (HSB) which was formed in 1975 through the merger of two financial institutions namely, Imperial Savings and Home Ownership Association, and Savings and Mortgage Corporation of Ethiopia which were nationalized at the onset of socialist era of Ethiopia. HSB's objectives were granting long-term loans for residential housing and commercial building construction, purchase and renovation by mobilizing financial resources through ordinary savings, time deposits and long-term borrowings. For about twenty years since 1975, HSB has made important contribution to the development of housing in the country in which it up till now enjoyed the reputation as a household name.

Following the market-based economic policy of the country and the ensuing economic reform programs initiated by the government in 1992, HSB was reconstituted as Construction and Business Bank in September 1994 by regulation No. 203/94 with an authorized capital of Birr 71.8 million. The regulation gave CBB the mandate to provide universal banking services. In line with this, CBB has ventured into commercial banking operations stage by stage maintaining construction financing as its core business. In September 2000 CBB is converted to share company in accordance with the Ethiopian Commercial Code with a capital of Birr 79.0 million. Since the past half of the decades declining of performance and operation gaps have been seen in the record of CBB, as a result, the researcher make the first move to find the main causes of these outfitted space by paying attention on the corporate governance mechanism. Stand on this intention, the study was being conducted to attain some intention, the researcher was discuss and made an effort to find out the reason to provide clear understanding about factors that take part in the disturbance practice of the firm governance system.

The aim of this study is generally to assess the corporate governance practices of CBB with internal corporate governance mechanisms. The study organized to achieve the main objectives and to answer the research questions using descriptive method research approach. In order to fit the study objectives, major issues like board issues, concerns related to management of the bank, issues of the board committee and operational capability of the bank was used as a main focus. In order to make the study convenient, the literature part of the study was discussing the corporate governance theories in general and the suitable theories for this study were selected and illuminated in detail. The rationale behind this step is to get a clear picture of the main variable of this research. In addition to this, corporate governance related approaches extracted from the literature and explained accordingly. Finally, the major internal corporate governance indicators in general were emphasized in detail based on the theoretical foundations as emerged from the literature. In conclusion the researcher provided recommendations which are valuable information derived from the research finding.

1.2. STATEMENT OF THE PROBLEM

The problem area that is going to be dealt in this particular paper is the subject of corporate governance practices especially internal corporate governance perspectives with a particular emphasis on construction and business bank S.C. (CBB). In the past half of the decades CBB apply various performance advancement movements to strength its operational, asset and capital capacity and to be the best performing bank in the country. However such activities just not the only means to access and to reach the anticipated stage easily, in contrary the gradual decline of the bank performance be a sign of the bank current appearance generally weak performer than other state owned banks in the country. The reason why the bank performance decrease from time to time and what are missing or the problematic issue behind in this regard requiring investigation. Consequently, finding the main causes of these outfitted space and watching these gaps on the eye glass of corporate governance device is fundamental. So that detail examination is very important to recognize either this gaps has emanate from weak corporate governance system of the bank or not, in addition this examination also assist in order to reach to a specific point of conclusion.

In spite of the intrinsic importance for the economic health of the economy and society in general, the extent to which banks are complying with or applying Corporate governance principles is the least studied area of management (Juran & Louden, 1966).The researcher found a research works prepared in Ethiopia concerning corporate governance in privet banks, however their major finding indicates merely that corporate governance is important for banks better performance. Hence, apart from this conducted research works the researcher found a gap on corporate governance in government owned banks and also the researcher believes that dealing with the extent to which the corporate governance practices of public corporations is currently worth discussing and addressing issue. So that evaluating the extent of the implementation of corporate governance practices of CBB is relevant issue. As a result of this, it is essential to carry out broad research on corporate governance practices CBB in order to reach to a particular point of conclusion.

1.3. RESEARCH QUESTIONS

In general, taking in to consideration the aforementioned sentiments this research paper were determined answers finally for the following research questions:

1. What is the overall corporate governance situation of the bank?
2. What is the role of stakeholders on the corporate governance system of the bank?
3. What are the possible obstacles to the implementation of good corporate governance within the bank?
4. Does the bank present a timely disclosure of its material information?
5. To what extent are the board and the management of the bank discharging their roles and responsibilities?

1.4. OBJECTIVE OF THE STUDY

The main object of conducting this study is assessing corporate governance practices of construction and business bank S.C., Besides the general objectives this research also has the following specific objectives:

1. To examine the corporate governance culture of the bank.
2. To examine the role of stakeholders in the development of the bank corporate governance.
3. To assess corporate governance mechanisms and to identify the possible obstacles to the implementation of good corporate governance within the bank.
4. To evaluate the extent to which the board and the management of the bank are discharging their roles and responsibilities.
5. To examine that there is transparency and disclosure of information within the bank.

1.5. SIGNIFICANCE OF THE STUDY

The issue of corporate governance is very critical for an organization especially service giving organizations like construction and business bank, in addition the financial sector especially the banking sector is very much exposed to governance problem, so that constructing good corporate governance practices is taking into account like constructing defense mechanism of the firm, as it is the foundation for the ongoing existence of the company and it assures sustainable development of the business as well as it foster the national economy of the country, assurance the health and the growth of the financial market, guarantee for potential investors as well as the action of the stakeholders'.

Considering the abovementioned opinion conducting this research will supply clear understanding concerning factors that take part in the disturbance practice of the firm governance system and become a channel to fill the knowledge gap through providing information that assisting firms to be alert and to construct this defense mechanism in advance to maintain their progress as well as to attain their goals and objectives easily. In addition to this, the present conceptual study will attempt to contribute new knowledge to the existing literature of corporate governance and also will invite other researchers to further conduct research regarding this topic.

1.6. SCOPE OF THE STUDY

In general at present CBB have one hundred twenty three branches; from the entire branches fifty branches are located in Addis Ababa city and the rest outside Addis Ababa city. So that the geographic coverage of the study was Addis Ababa and outline branches which are selected from the east, west, north and south direction. So, the research analyzed data collected from all the head office processes and twenty selected branches of Addis Ababa such as Main Branch, Africa Avenue, Ayer Tena, Merkato, And Gojam Berenda, Kera, Stadium, Lideta,Goffa Mebrat, Edget, Belay Zeleke, Arat Kilo, Uraeal, Megenagna Square, Kotebe, Megenagna 24, Haya Hulet Mazoriya, Yerer Goro, Gerji, Saris and five outline branches of CBB such as Bahir Dar, Nekemte, Adama, Shashemene and Dessie. The theoretical coverage of the study was corporate governance theories in general but in particular internal corporate governance mechanisms.

1.7. LIMITATION OF THE STUDY

In conducting detail researches on assessing the corporate governance practices of the firm, it is compulsory to have much more time, adequate information, expertise knowledge, etc. Even though there are a number of important determinant variables which have significant influence on governance practices of the firm the study focused only on internal corporate governance system of the bank. The research faced limitation regarding the finding of reliable and accurate data about the topic due to lack of reference on the topic under study in the bank. The study considered only twenty branches in Addis Ababa and five branches from outside Addis Ababa because it is costly to include and distribute questioners to each employee of the rest Addis Ababa and regional branches. Time and budget are always in scarce which also view come upon this study.

1.8. ORGANIZATION OF THE RESEARCH REPORT

The study is structured in five chapters. The first chapter includes background of the study, statement of the problem, basic research questions, and objectives of the study, significance of the study, scope of the study, and delimitation or limitation of the study. The second chapter deals with related literature review: this chapter includes theoretical and empirical literature review. The third chapter comprises research design and methodology. The fourth chapter focuses on Results and discussion and the last chapter covers summary of finding, conclusion and recommendations reached.

CHAPTER TWO
LITERATURE REVIEW

The literature review of the study has two parts; theoretical and empirical literature review. The theoretical review attempts to give insight about the concept, definitions and Significant of corporate governance; over view of the corporate governance theories and corporate governance in banking sector and finally internal corporate governance mechanisms. In the empirical literatures part, the study tried to show past study findings related to internal corporate governance mechanisms.

2.1. THEORETICAL LITERATURE REVIEW

2.1.1. CORPORATE GOVERNANCE: CONCEPT, DEFINITION AND SIGNIFICANCE

The concept of the corporate governance is wide ranging, and it goes far away from corporate administration. When we see the consideration of management, it comprises application of science to the practice of administration, development of the basic management functions and articulation and application of specific principles of management. However the idea of governance is broad and includes fair, efficient, equitable, transparent and accountable administration to meet well defined corporate objectives. It also considers structuring, operating and controlling a company with a view to achieving long term strategic goals to satisfy owners and stakeholders' interest and to comply with the legal and regulatory requirements.

As a consequence good quality governance is important in every area like the general community, the corporate environment and the political environment. Weak corporate governance structure affects the performance of the firm and also major cause of failure of many well performing companies. The reflection of poor governance has bouncing to a further as long as good protecting mechanisms existed. In view of the fact that the scandal with Enron, as well as fraudulent activities that occurred within WorldCom and Tyco within the United States, We have seen the collapse of the global accounting firm Anderson; and thousands of people being thrown out of work and many people losing their investments, after that corporate governance mechanism has been an important issue and become the public interest all over again. After that Sarbanes-Oxley Act was enacted in

2002 to enhance corporate government mechanism. This Act required the top management in companies to reveal a true and fair picture of financial statements and to report on fraudulent practices and the effectiveness of internal audit as steps to ensure effective governance (Stigliano, Adria L. 2011). In addition to SOX the EEC, GATT and WTO regulations have also contributed to increasing awareness and to stick on to the good governance practices.

There is no universally held or single definition of corporate governance and certainly no definition that all countries agree on (Mayes et al. 2001). The following definition should help us to understand the concept better. Corporate governance can be defined and practiced in different way globally depending upon the relative power of owners, managers and provider of capital (Craig, 2005).Various scholars and practitioners define 'corporate governance' differently (A. C. Fernando 2006). Economists and social scientists, for instance, tend to define it 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" (Jeswald W. Salacuse 2004). 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.

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 (Jeswald W. Salacuse, 2004). 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. The Financial Reporting Council set up a committee chaired by Sir Adrian Cadbury (2003) echoed the fact that corporate governance is all about maintaining a balance between social and economic goals and is concerned with holding the balance between economic and social goals and between personal and shared goals.

The Cadbury Report 1992 provides a useful definition "Corporate Governance" and according to the committee, it means, "(It is) the system by which companies are directed and controlled." It may also be defined as a system of structuring, operating and controlling a company with the following specific aims:-

a) Fulfilling long-term strategic goals of owners;
b) Taking care of the interests of employees;
c) A consideration for the environment and local community;
d) Maintaining excellent relations with customers and suppliers;
e) Proper compliance with all the applicable legal and regulatory requirements.

Generally, corporate governance can be defined as a procedure, customs, laws, policies, and institutions that affect the way a corporation is directed, administered or controlled. It can also be the relationships between stakeholders and the goals that are already laid down for the corporation to follow, in which the principal stakeholders are the following: shareholders, management, and the board of directors. In addition, employees, customers, creditors (banks and bond- holders) are stakeholders. The important objective of corporate governance is to ensure the accountability and transparency of the organization (Wilson, Casu, Girardone, Molyneux, 2010).

2.1.2. OVER VIEW OF THE CORPORATE GOVERNANCE THEORIES

Corporate governance is an important factor affecting the firm performance. Several corporate governance theories exist that attempt to highlight the objective of the firm and how the firm should be responsible in meeting its obligations. However it lacks any accepted theoretical base or commonly accepted pattern till date (Larcker, Richardson, & Tuna, 2004; Parum, 2005). This study looked at three main theories that have influenced corporate governance development. Moreover most of the researchers support their studies by using these prominent theories to further explain the determinants of corporate governance. These are agency, stakeholder, and stewardship theories are briefly reviewed. These theories are selected because they are powerful in explaining the relationships among corporate governance and firm performance.

I. AGENCY THEORY

Agency theory is one of the most important theories in the context of corporate governance and it is widely used as a means of explaining various corporate governance issues. As such, a large volume of studies in the literature are based on it (Filatotchev and Boyd, 2009). The essence of the theory is based on the existence of separation of ownership and control in large corporations. The agency contract has been described by Jensen and Meckling (1976) as a contractual agreement between owners (principals) and managers (agents) to operate the firm in the interests of shareholders. This, however, does not suggest that Jensen and Meckling (1976) were the first to develop agency theory or suggest the possibility of agency conflicts between corporate owners and managers.

On the other hand, conflict of interest between the agent and the principal inevitably occurs when the agent fails to act in the best interest of the principal, and instead act to maximize their own value. Such conflict of interest occurs due to difference in their preferred level of managerial effort, their attitude towards risk, and their time horizons, which in turn may lead to divergence in the goals of managers and shareholders (Bozec, Y & Bozec, R, 2007). Consequently, different control mechanisms either internal or external to the firm should be put in place in order to align the interests of managers and shareholders (Bozec, Y & Bozec, R, 2007).

On the other hand, Davis & Donaldson, (1997) argue that, assumptions made in agency theory about individualistic utility motivation resulting in principal-agent interest divergence may not hold for all managers; therefore, exclusive reliance on agency theory is undesirable, because the theory ignores the complexities of organizational life. As a result, agency theory suggests that corporate governance mechanisms can be introduced to mitigate managerial opportunism, thereby minimizing agency costs (Haniffa and Hudaib, 2006; Solomon, 2010). Specially, agency theory describes construction an organization of governance structure through the establishment of a set of legal contracts by shareholders to monitor managers. Primaryly, it recommends a reduction in the number of executive board members; which could enhance the board's independence (Berle and Means, 1932; Solomon, 2010; Chen, 2011; Al-Janadi et al., 2013). Also, this may help shareholders hold board members to account (Fama 1980; Bebchuk and Weisbach, 2010; Conyon and He, 2011).

II. STAKEHOLDER THEORY

The other popular theory of corporate governance is the Stakeholder theory. The stakeholder theory originated from the management discipline and gradually developed to include corporate accountability to a broad range of stakeholders (Abdullah, H & Valentine, B, 2009). Stakeholder theory maintains that managers in organizations are not only responsible for the interests of shareholders but also for a network of relationships to serve which includes the suppliers, employees and business partners (Abdullah, H & Valentine, B, 2009). According to stakeholder theory decisions made regarding the company affect and affected by different parties in addition to stockholders of the company. Hence, the managers should on the one hand manage the company to benefit its stakeholders in order to ensure their rights and their participation in decision making and on the other hand the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long term stakes of each group (Fontaine, C, Haarman, A and Schmid, S, 2006). As a result, according to Macey, M & O' Hara, JR (2003) the major debate in corporate governance focuses on whether corporate governance should focus exclusively on protecting the interests of equity holders in the corporation, or should expand its focus to deal with the problems of other stakeholders.

III. STEWARDSHIP THEORY

The other popular theory of corporate governance is the stewardship theory. It originates from sociology and psychology. The stewardship theory maintain that managers are not motivated by individual goals but rather they are stewards, whose motives are aligned with the objectives of their principals shareholders (Davis, J, Schoorman, D & Donaldson, L, 1997); as opposed to the agency theory which claims that conflict of interest between managers and shareholders is inevitable unless appropriate structures of control are put in place to align the interests of managers and shareholders (Jensen, MC & Meckling, WH, 1976).

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

2.1.3. CORPORATE GOVERNANCE IN BANKING SECTOR

Previously the study has reviewed the various paradigms of corporate governance and now we turn to our central issue: the nature of bank corporate governance. Academics in both law and economics have also been intensely focused on corporate governance (Hermalin and Weisbach, 2003). The general focus on this paper is, make clear the role that corporate governance in corporate performance. So that commercial banks pose unique corporate governance problems for managers and regulators, as well as for claimants on the firms' cash flows such as investors and depositors. A bank's failure to follow good practices in corporate governance and the lack of effective governance are among the most important internal factors which may endanger the solvency of a bank (D.T. Llewellyn 2002, W.R. Miller 1996). Corporate governance in banks differs from the standard (typical for other companies), which is due to several issues (D.T. Llewellyn (2002), M. Marcinkowska (2009) P. Cincanelli, J.A. Reyes-Gonzalez (2000) :

- Banks are subject to special regulations and supervision by state agencies (monitoring activities of the bank are therefore mirrored); supervision of banks is also exercised by the purchasers of securities issued by banks and depositors ("market discipline", "private monitoring");
- The bankruptcy of a bank raises social costs, which does not happen in the case of other kinds of entities' collapse; this affects the behavior of other banks and regulators;
- Regulations and measures of safety net substantially change the behavior of owners, managers and customers of the banks; rules can be counterproductive, leading to undesirable behavior management (take increased risk) which expose well-being of stakeholders of the bank (in particular the depositors and owners);
- Between the bank and its clients there are fiduciary relationships raising additional relationships and agency costs;
- Problem principal-agent is more complex in banks, among others due to the asymmetry of information not only between owners and managers, but also between owners, borrowers, depositors, managers and supervisors;

2.1.4 LAWS AND DIRECTIVES OF CORPORATE GOVERNANCE IN ETHIOPIA.

The Commercial Code of Ethiopia (1960) has relevant provisions on corporate governance application. The part which is related to share companies is Articles 304-428, where shares and rights and duties of shareholders, directors, auditors and shareholder meetings are clearly stipulated. Summary of the provision may include the following

- According to Article 347, a company shall have not less than three or more than twelve directors who shall form a board of directors. Appointment of directors
- (Art.351) - The first directors may be appointed under a memorandum of association and submitted to the meeting of subscribers for confirmation. Subsequent directors shall be appointed by a general meeting. Directors may not be appointed for more than three years.
- According to Art14, a Director shall be of a person with honesty, integrity, diligence and reputation to the satisfaction of NBE. The appointment of any director, CEO, senior executive officer of a bank may not be valid unless a written approval is granted by NBE. The NBE may issue directives on qualification of competency, minimum number of directors, duties, responsibilities and good corporate governance of the bank, the maximum number of years a director may serve and condition for his re-election, and maximum number the employees that may serve on the board.
- As per Art.15 persons convicted of any offence involving breach of trust or fraud is prohibited from getting appointed as directors and officers.
- Remuneration (Art.353) - Directors may receive fixed annual remunerations, or share in the net profit (not exceeding 10 %.) the amount of which shall be determined by a general meeting and charged against general expenses.
- Removal, Powers and Decisions of board of directors – according to (Art.358) No decision may be taken by the board of directors unless a majority of directors is present. Voting may be by proxy. As per (Art.363) - The directors shall have such powers as are given to them by law, the memorandum or articles of association and resolutions passed at meetings of share holders. Regarding removal (Art354) says that, notwithstanding any provision to the contrary, directors may be removed at any time by a general meeting, provided that a director who was removed without good cause may claim compensation.
- Nomination and Appointment of Auditors (Atr368 &369) - Auditors shall be elected by the meeting of subscribers and thereafter by the annual general meeting.

2.1.4. CORPORATE GOVERNANCE MECHANISMS

Effective corporate governance system is necessary for any company who wants to put and meet its strategic goals. A corporate governance system is regularly a mixture of various systems. Corporate governance systems are the procedures employed by companies to solve corporate governance problems; however, the use of these mechanisms depends on the corporate governance system

(Weimer & Pape, 1999). Mechanisms for corporate governance can be divided into two parts: internal and external mechanisms (Fan, Lau & Wu, 2002).

The leading sets of controls for a corporation come from its internal mechanisms. These controls watch the development and actions of the business and take corrective actions when the business goes off track. These objectives include smooth operations, clearly defined reporting lines and performance measurement systems. Internal mechanisms include oversight of management, independent internal audits, structure of the board of directors into levels of responsibility, segregation of control and policy development (Fan, Lau & Wu, 2002).

External control mechanisms are controlled by those outside an organization and serve the objectives of entities such as regulators, governments, trade unions and financial institutions. These objectives include adequate debt management and legal compliance. External organizations, such as industry associations, may suggest guidelines for best practices, and businesses can choose to follow these guidelines or ignore them. Typically, companies report the status and compliance of external corporate governance mechanisms to external stakeholders (Fan, Lau & Wu, 2002).

2.1.4.1 DETERMINANTS OF INTERNAL CORPORATE GOVERNANCE MECHANISMS

A. THE BOARD OF DIRECTORS

The board of directors is the first level of supervision over the activities of the bank and its management. The board is ultimately responsible for the activities and results of the bank, for the maintenance of stability and financial soundness. The powers and rules of the board are specified in the law and the statute of a bank. The mode of operation should be specified in the rules of procedure of the board (Al-Matari et al., 2012). The core competences of the board forming the foundations of the bank activities include: approving and overseeing the strategic objectives of the bank and its corporate values, overseeing the work of the management board and the determination of the scope of the obligations and liability of the management members, the establishment of guidelines for the acceptable level of risk, overseeing the introduction of the management system (consisting at least of the system of risk management and internal control system), and assessment of the adequacy and effectiveness of the system (BCBS, 2006).

B. SIZE OF THE BOARD OF DIRECTORS

The two most important functions of the board of directors are those of advising and monitoring (Raheja, 2005; Adams & Ferriera, 2007). Zahra and Pearce (1989) classified two main roles of the board: it should control the operations of the firm and the activities of the CEO; and it should enhance the image of the firm and sustain a good relationship between the stakeholders and firm management to encourage the organization culture. This shows that these board functions could develop the performance of a firm. Small board size was favored to promote critical, genuine and intellectual deliberation and involvement among members, which presumably might lead to effective corporate decision-making, monitoring and improved performance (Lawal, 2012).

C. BOARD MEETING

The board meeting is a way of exchanging information between board members and the company representatives in order to perform their basic activities of leadership and supervision. Effective board meetings provide useful information in a timely manner which is critical for any board's effectiveness (Arguden, 2009). To this effect, the boards of directors will be informed in advance of the meetings to be held at specific times, at least before the quarterly release of financial information to the users (Tonello, 2010). According to Vafeas (1999), an increase in the level of board activity through board meetings following poor firm performance, and this subsequently leads to an improvement in the firms' performance. Nevertheless, the frequency of meeting to be held by the board depends on the size and volatility nature of the businesses. Firms with small size and stable environment are expected to have less number of meetings than large and risky businesses (Colley, et al., 2005).

D. COMPOSITION OF THE BOARD OF DIRECTORS

The board of directors plays an important role in corporate governance practices because it is responsible for planning and monitoring a company's objectives (Bhagat & Bolton, 2008; Haniffa & Cooke, 2002). Therefore, an effective board director with an appropriate composition of directors is important in order to help the board accomplish its aim and ensure the success of the company (Al-Matari et al., 2012). The composition of the board has a direct effect on the company's activities (Klein, 1998). Generally, the composition of the board refers to the proportion of inside and outside directors serving on the board. The Cadbury Report (1992) indicates that the presence of non-executives should be effective in enhancing board independence and firm performance. The Code of Best Practice recommended that the board of directors include non-executive directors of sufficient number and caliber in order to give non-executive directors an important influence on the board's decisions.

E. AUDIT COMMITTEE

The audit committee is a subcomponent of the main board which is responsible for overseeing the company's financial reporting process. According to the best practice set by SOX, the audit committee is required to be composed of more than three members, of which at least two third from outside directors and at least one being financial expert. This committee ensure that accounting policies are sound and financial statements are properly prepared and audited (Green, 2005). The existence of these experts in the firm will create a transparent and credible environment between management, external auditors and the board members.

F. BOARD AND SENIOR MANAGEMENT SUPERVISION

A bank's board of directors and senior management are ultimately responsible for the performance of the bank. As such, supervisors typically check to ensure that a bank is being properly governed and bring to management's attention any problems that they detect through their supervisory efforts. Supervisors should be attentive to any warning signs of deterioration in the management of the bank's activities. They should consider issuing guidance to banks on sound corporate governance and the pro-active practices that need to be in place. They should also take account of corporate governance issues in issuing guidance on other topics (Basel, 1999).

2.2. EMPIRICAL LITERATURE REVIEW

2.2.1 CORPORATE GOVERNANCE PRACTICAL REVIEW

Good governance reduces the waste of resources and improves firm performance. Jensen and Meckling (1976) define the value decreasing activities as managers' perquisites consumptions, stealing of corporate resources and inefficient investment. Corporate governance plays an important role in enhancing firm value by reducing such activities. Shleifer and Vishny (1997) show that better-governed firms are more likely to invest in profitable projects, resulting in more efficient operations and higher expected future cash flows. The theory predicts that better-governed firms deliver higher shareholder value. Many recent empirical works employ firm value (usually proxied by Tobin's Q or market-to-book value), operating performance (usually proxied by ROA), or stock returns as the measure of firm performance. These findings are generally consistent with the prediction of a positive association between corporate governance and firm performance.

On the other hand a great number of studies reviewed the relation between corporate governance variables and performance of firms in various economic contexts, but the results from these studies have been found to be inconsistent. In spite of the generally accepted notion that effective corporate governance enhances firm performance, other studies have reported negative relationship between corporate governance and firm performance (Bathala and Rao, 1995; Hutchinson, 2002) or have not found any relationship (Park and Shin, 2003; Prevost *et al.* 2002; Singh and Davidson, 2003; Young, 2003). To address some of the aforementioned problems, it is recommended that to look at corporate governance and its correlation with firm performance. So that from these studies, conceptual and empirical evidences that deal with the corporate governance mechanisms such as board size, board meetings, audit committee, board composition, and board compensation are summarized in relation to firm performance, and discussed below.

A. AUDIT COMMITTEE

An audit committee is an important corporate governance mechanism in firms to protect the interests of shareholders and oversee financial reporting (Mallin, 2007). Chan and Li (2008) find a significant positive relationship between Tobin's Q and audit committee independence. Hamdan, Sarea and Reyad (2013) examine the relationship between audit committee independence and firm performance of 106 financial firms listed on the Amman Stock Exchange Market from 2008 to 2009, finding that audit committee independence has a significant influence on firm performance. Nevertheless, Al-Matari et al. (2012) argue that although a positive relationship between audit committee independence and firm performance is expected, and that an independent audit committee can reduce agency problems, there is no relationship between audit committee independence and marketing performance. The results reveal that audit committee composition has no effect on firm performance in the selected sample.

B. BOARD ACTIVITY INTENSITY

The effect of the activity of a board yields either proactive or reactive results. The nature of the association between board activity intensity and firm performance is not clear. Some contend that board meetings are beneficial to shareholders. For instance Lipton and Lorsch (1992) suggest that "the most widely shared problem directors face is lack of time to carry out their duties". In a similar argument, Conger et al (1998) suggest that board meeting time is an important resource for improving the effectiveness of a corporate board. Ntim and Osei (2011) found that there is significant and positive association between the frequency of corporate board meetings and corporate performance, implying that boards that meet more frequently tend to generate higher financial performance. By contrast According to an early empirical investigation on board meeting by Vafeas (1999), he found an increase in the level of board activity through board meetings following poor firm performance, and this subsequently leads to an improvement in the firms' performance.

C. BOARD'S EFFICIENCY

The role of a board is the internal corporate governance of a firm (Fama, 1980). A board is also a control system in a business (Fama and Jensen, 1983). A board of directors supervising management decisions in an efficient manner will improve firm's performance. The board members are educationally qualified and very well experienced. Doing so requires each board member to be fully equipped with management knowledge such as finance, accounting, marketing, information systems, legal issues and other related areas to the decision making process. This requirement implies that the quality of each board member will contribute significantly and positively to management decisions which is then translated into the firm's performance (Nicholson and Kiel, 2004; Fairchild and Li, 2005; Adams and Ferreira, 2007).

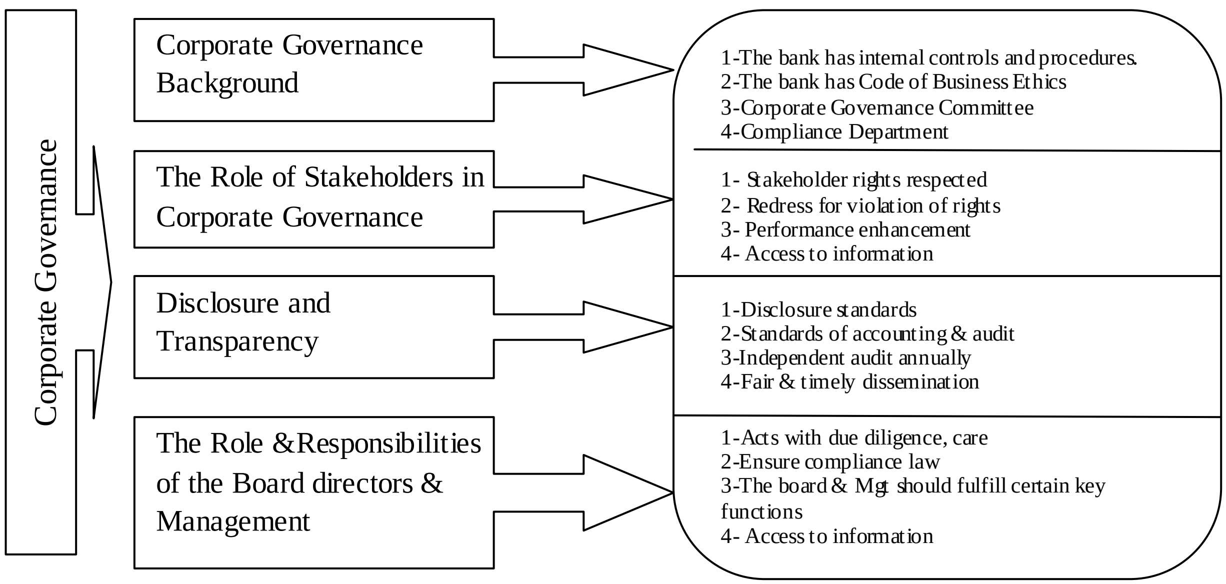
D. BOARD INDEPENDENCE

John and Senbet (1998) argue that a board is more independent if it has more non-executive directors. As to how this relates to firm performance, empirical results have been inconclusive. In one breadth, it is asserted that executive (inside) directors are more familiar with a firm's activities and, therefore, are in a better position to monitor top management. On the other hand, it is contended that non-executive directors may act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization (Fama, 1980).

2.3. CONCEPTUAL FRAMEWORK DEVELOPMENT

The purpose of this study is to examine corporate governance practice and explain the implications of this practice on CBB. The conceptual framework (see Figure 2.1) illustrates the link between the theoretical framework discussed above and the corporate governance variables investigated in this study. The conceptual framework entails corporate governance mechanisms as autonomous consistent identified in the corporate governance literature to evaluate the practice of the bank.

Figure 2.1 Conceptual Framework



CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.1. INTRODUCTION

There are different ways of obtaining knowledge and/or Wisdom. However, science presents a specific methodology for obtaining knowledge. The use of the scientific method is more efficient and reliable than any other source of knowledge. Scientific methods consist of systematic observation, classification and interpretation of data (Collin Fisher 2007). Although when we engaging in such process the difference between generalization and the conclusions usually recognized as scientific method and lies in the degree of formality, rigorousness, verifiability and general validity of latter (Zigmund et al 2009). In general this section of the paper provides information on the type of research design that was adopted for this study. It gives the population and sample selected for the study. It also show which sample were used in the current research. Furthermore it discusses the data collection, analysis and presentation techniques that will use in the study.

3.2. RESEARCH DESIGN

The type of research design used varies from research to research. The type of research employed for the purpose of this study is descriptive research design to analyze the major factors raised by this research. Descriptive study is useful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting (Seiliger and Shohamy 1989;McDonough, 1997). Thus, the choice of the descriptive study design was be based on the fact that a descriptive study determines and reports the way things are. In addition, in order to achieve the intended objective, the quantitative methods were chosen. The main focus of this study is quantitative. However some qualitative approaches were use in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the quantitative study.

Quantitative data were gathered through questionnaire in the first phase of the study; On the other hand qualitative data were collected through interview in the second phase of the study. Finally the collected data was analyzed using descriptive statistics by the help of SPSS statistical software. The descriptive statistics were used to quantitatively describe the important features of the variables using mean, maximum, minimum and standard deviations.

3.3. SOURCES OF DATA

Data were collected both from the primary and secondary sources. The target populations of this study for the primary data were the senior management of the bank and middle and operational level managers of the bank and non managerial employee's of the bank. Secondary data were obtained from different sources like published annual reports, different books, journals and websites.

3.4. POPULATION

A population refers to an entire group of individuals, events or objects having common observable characteristics (Mugenda and Mugenda, 2003). According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. All the management members and employees of the Construction and Business Bank were used as a target population of the study.

3.5. SAMPLING FRAME

A sampling frame is a complete list of the units of analysis of interest from which the samples are selected while a sample size is the number of items to be selected from the universe to constitute a sample (Kothari, 2004). The optimum sample size was used to fulfill the requirements of efficiency, representativeness and reliability. Unnecessary large sample size would bring about data duplicity besides having cost and time implications while a smaller sample size would not be representative. A sample of the responding staff was drawn from the entire staff population at the Head Offices and branches. Generally currently CBB have one hundred twenty three branches, fifty branches in Addis Ababa and the rest outline branches. CBB have total of 1924 employees and from this population the researcher were take 192 employees which is consist of Process Director, Branch Manager, and Team leaders, Internal Auditor, Accountant and Customer Service Officers. So that in order to draw the sample staff all principal head office processes, twenty selected branches of Addis Ababa such as Main Branch, Africa Avenue, Ayer Tena, Merkato, And Gojam Berenda, Kera, Stadium, Lideta,Goffa Mebrat, Edget, Belay Zeleke, Arat Kilo, Uraeal, Megenagna Square, Kotebe, Megenagna 24, Haya Hulet Mazoriya, Yerer Goro, Gerji, Saris and five outline branches of CBB such as Bahir Dar, Nekemte, Adama, Shashemene and Dessie intentionally due to ease of access.

3.6. SAMPLING TECHNIQUES

The study used a stratified random sampling technique to come up with the required sample. The goal of stratified random sampling is to achieve desired representation from various subgroups in the population (Mugenda and Mugenda, 2003). The researcher was taken all principal head office processes, twenty city branches and five outline branches for the study. The twenty city branches and five outline branches selected according to their perceived performance. The proportional stratified sample was used for both head office processes and branches to draw respondents. Employees are classified on six major levels of job position to come up with the required sample such as Director, Manager, and Team leaders, Internal Auditor, Accountant and Customer Service Officers. The number of sampling units was drawn from these groups are believed to provide the necessary information for the intended research. The number of sampling units drawn from each level is in proportion to the relative population size of that stratum.

3.7. SAMPLE DESIGN AND SAMPLE SIZE

Sampling is the procedure a researcher uses to gather people, places or things to study, (Kombo & Tromp, 2006). It is the procedure of selecting individuals or objects from a population such that the selected group contains elements representative of characteristics found in the entire group, (Orotho and Kombo, 2002). The researcher used three steps in determining the sample size for the study. First, the target population was defined which is all the management members and employees of the Construction and Business Bank were used as a target population of the study. Second, the kind of sampling strategy (stratified random sampling technique) was formulated to show the direction of the study. Stratified random sampling ensures inclusion, in the sample, of sub groups, which otherwise would be omitted entirely by other sampling methods because of their small number of population, (Mugenda & Mugenda, 2003).Third, the researcher determined the sample size, which is the numbers of respondents required in the study. The proportional stratified sample was used for both head office processes and branches to draw respondents. A sample of 10% of the total population was used for this study, therefore from the total of 1924 employees, 192 respondents constituted the sample population for the study. According to Gay in Mugenda and Mugenda, (2003), for descriptive studies at least 10% - 20% of the total population is enough.

Table 3.1 Sample Size Determination

S. No.		Total no of Employees	Proportion	Sample Size
1	Head Office Process	343	18%	34
2	Branches	1581	82%	158
Total		1924	100%	192

3.8. RESEARCH INSTRUMENTS AND DATA COLLECTION PROCEDURES

The study used both primary and secondary data sources in gathering data for analysis. The primary data were collected with the help of the Bank's stuff members using semi-structured Questionnaire in a weighting scale form and interviews. When questions are presented in a weighting scale form and it is easy to compare responses given to different items. This easy comparability is advantageous to both the researcher and the respondent. As part of the primary data, a comprehensive questionnaire was designed and distributed to all members of the target sample population of the study. In addition, interview with the process director and branch manager was conducted to obtain detailed information. As part of secondary data, publicly available information like annual report of the bank, commercial code of Ethiopia, proclamation and directive issued by the National Bank of Ethiopia to regulate and supervise the bank's governance were accessed. Moreover, literatures related to the subject were exploited from the internet.

The researcher adopted three steps in collecting the data for the study. First, relevant literature was reviewed to get adequate information on the topic. Second, objectives and research questions were formulated to show the direction of the study. Third, data gathering tools were developed and piloted. After the questionnaire was distributed and collected, interview with selected employees of the bank was conducted.

3.9. VALIDITY OF INSTRUMENTS

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

3.10. RELIABILITY ANALYSIS

In this research, the reliability measure was used to focus on the internal consistency of the set of statements. The researcher used the coefficient alpha score to measure the reliability of the survey questionnaire. Cronbach's alpha is the degree to which instrument items are homogeneous and reflect the same underlying construct (Cooper & Schindler, 2006). Cronbach alpha was calculated by application of SPSS for reliability analysis. The reliability analysis value of the alpha coefficient is 0.71. According to Smith et al. (2011) argue that a reliability coefficient of 0.71 is acceptable, Thus result illustrates that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.60.

Table 3.2 Reliability analysis

	Scale	**Number of Items**	**Cronbach's alpha**
1	Governance background of the bank	24	0.821
2	Board concerns	18	0.717
3	Issues regarding management of the bank	11	0.748
4	Issues regarding Board Committee of the bank	3	0.703
	Total reliability analysis of questionnaire	56	0.711

3.11. METHOD OF DATA ANALYSIS AND PRESENTATION

After the raw data was readily available, quantitative and qualitative methods of data analysis were used in order to meet the research objective. Quantitative methods of data analysis were used for data collected through questionnaire. The descriptive statistics were used to analyze the means and standard deviations of the variables. To analyze the data obtained through interview qualitative method of data analysis was employed. The data collected which is mostly quantitative in nature is analyzed by descriptive analysis techniques using tools such as Statistical Package for Social Sciences (SPSS).

3.12. ETHICAL CONSIDERATION

Before the research was conducted on the selected bank, the researcher informed the participants of the study about the objectives of the study, and was consciously consider ethical issues in seeking consent, avoiding deception, maintaining confidentiality, respecting the privacy, and protecting the anonymity of all respondents.

CHAPTER FOUR
RESULTS AND DISCUSSION

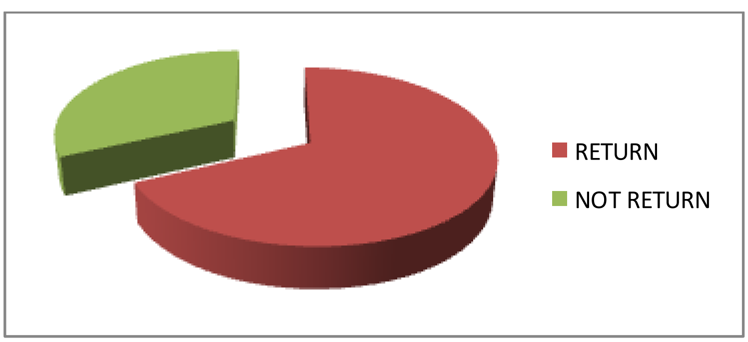
4.1. QUESTIONNAIRE SURVEY RESULTS AND DISCUSSION

This chapter presents the research findings derived from the questionnaire employed to answer the research questions of this study. SPSS was used to analyze the survey data. The questionnaire was distributed to the following groups: managers, board members, process directors, team leaders, accountants, customer service officers and internal auditors. Here under these sections provide the overall results obtained from questionnaire.

4.1.1. RESPONSE RATE

To determine the actual number of responses who actively participated in the study, analysis of the response rate was conducted as shown in the figure was sent to 192 employees. However, out of the 192 questionnaires sent, only 130 questionnaires were received back fully completed making a response rate of 68%. This is in agreement with wit and Schindler (2003) who indicated that a response rate of between 30 to 80% of the total sample size can be generalized to represent the opinion of the entire population.

Figure 4.1: Response rate



4.1.2 GENERAL BACKGROUND OF THE RESPONDENTS

4.1.2.1 SEX

Table 4.1 illustrates the distribution of respondents based on sex. The results show that 60% of those surveyed were male, while 40% of the respondents were female.

Table 4.1 Gender of respondents

Gender	Frequency	Percent
Male	78	60
Female	52	40
Total	130	100

Source: Computation from SPSS analysis

4.1.2.2 MARITAL STATUS

Table 4.1 illustrates the distribution of respondents based marital status. The results show that 56.2% of those surveyed were married, while 43.8% of the respondents were single.

Table 4.2 Marital Status of Respondents

Marital Status	Frequency	Percent
Married	73	56.2
Single	57	43.8
Total	130	100

Source: Computation from SPSS analysis

4.1.2.3 AGE

Table 4.3 illustrates the distribution of respondents based on age. The results show that 40.8% of those surveyed were less than 30 years old, while 44.6% and 13.1% of the respondents were aged 31–40 and 41–50 years old, respectively. 1.5% of respondents were aged 51–60 and none of the respondents were over 60 years old. Overall, 85.4% were below 41 years old, 14.6% were more than 40 years old, and three-fourth of the participants was more than 40 years old.

Table 4.3 Ages of Respondents

Age Group	Frequency	Percent
Less than 30	53	40.8
Between 31&40	58	44.6
Between 41&50	17	13.1
Between 51&60	2	1.5
Total	130	100

Source: Computation from SPSS analysis

4.1.2.4 JOB POSITION

Table 4.4 shows the distribution of the respondents by job position. The lowest percentage is that of members of directors (1.5%), followed by members of internal auditors (1.5%), team leaders (3.1%) and accountants (6.9%). The percentages for customer service officers and management were 58.5% and 28.5%, respectively. In general, top management (managers and directors) comprised about 30% of the respondents, while 70% were from the internal auditors, team leaders, accountants and CSO.

Table 4.4 Job position of Respondents

Position	Frequency	Percent
Director	2	1.5
Manager	37	28.5
Auditor	2	1.5
Team Leader	4	3.1
Accountant	9	6.9
Customer Service Officer(CSO)	76	58.5
Total	130	100

Source: Computation from SPSS analysis

4.1.2.5 EDUCATION BACKGROUND

Table 4.5 presents the highest academic qualification for the five groups of respondents. The majority (85.4%) of participants had completed their bachelor's degree or higher. 80% participants had a bachelor's degree, 5.4% had a master's degree and 14.6% had a diploma as their highest qualification. This reflects the high education level of the survey participants.

Table 4.5 Educational Qualification of Respondents

Education	Frequency	Percent
Master	7	5.4
Bachelor	104	80.0
Diploma	19	14.6
Total	130	100

Source: Computation from SPSS analysis

4.1.2.6 WORK EXPERIENCE

Table 4.6 shows that 33.1% of the respondents had less than five years of work experience. 33.8% had 5–10 years of work experience. Those with work experience of 11–15 years comprised 19.2% of the sample, while respondents with 16–20 years and more than 20 years of work experience comprised 10.8% and 3.9% of the sample, respectively.

Table 4.6 Work Experience of Respondents

Work Experience	Frequency	Percent
Less Than 5yrs	43	33.1
Between 5 &10	44	33.8
Between 11&15	25	19.2
Between 16&20	14	10.8
Above 20yrs	4	3.1
Total	130	100

Source: Computation from SPSS analysis

4.1.3 CONCEPT OF CORPORATE GOVERNANCE

In this section, the second part of the questionnaire, which deals with the major objective of the research was analyzed and presented using SPSS (Version 20) software.

4.1.3.1 THE CORPORATE GOVERNANCE BACKGROUND OF THE BANK.

This sub section examines respondents' perceptions regarding the governance background of the bank. These questions were used to addressee research question number one and two. The first questions 1.1.1 related to internal controls and procedures, registered the highest level of agreement (96.9%) and ranked first with a mean score 4.57 and Std. deviation 0.56 (see Table 4.7). Statement

1.1.4 related to Compliance Department of the bank ranked second position with mean score 4.38 and Std. deviation 0.534. As of the total number of respondents almost all (99%) agreed with this statement. In relation to question 1.1.2 concerning Code of Business Ethics ranked third place with a mean score 3.21 and Std. deviation 0.87. On the other hand, Statement 1.1.3 which is related to Corporate Governance Committee of the bank ranked fourth with mean score 2.12 and Std. deviation 0.74. More than half (67.7%) of the respondents provide weak support to these statement. In relation to statement 1.1.5 which is related to corporate governance awareness program of the bank ranked fourth with a mean score 1.71and Std. deviation 0.80. More than two third (80%) of the respondents provide high resistance and prove their disagreement with the statement.

Overall in the foregoing findings, the majority of participants agreed with statements recorded mean scores between 3.21 and 3.57. The findings of this study have pointed out the bank construct internal controls procedures, risk and compliance supervision and code of business ethics to govern the work and the activities of its entire department. As a result, agency theory suggests that in order to minimize conflicts between corporate owners and managers an effective internal control system is fundamental. It contributes to safeguard the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information, the compliance with laws and regulations. The internal controls system should be periodically evaluated and updated so that it continues to be effective in a changing environment. The existence of compliance department in any organization allows investors and other stakeholders' greater access to information about the corporation and is to be encouraged.

On the other hand the study finding indicate that more than half of the respondents disagree with statements recorded mean scores between 1.71 and 2.11. This implies that most important activities which help the execution of corporate governance without difficulty like organizing Corporate Governance Committee and applying on-going program to raise employee awareness in strengthening governance overlooked by CBB. The existence of Corporate Governance Committee in any organization allows developing a culture of good governance. Banks are subject to special regulations and supervision by state agencies. Organizing Corporate Governance Committee is necessary for the execution of corporate governance without difficulty. Effective corporate governance system is necessary for any company who wants to put and meet its strategic goals.

Table 4.7 Frequency (F), Percentage (%), Mean, Standard Deviation values of Corporate Governance background of the bank

Statements	Str. Agree		Agree		Uncertain		Disagree		Str. Disagree		Mean	St. Div.	Rank
	F	%	F	%	F	%	F	%	F	%			
1.1.1 The bank has Internal controls and procedures.	78	60	48	37	4	3.1	0	0	0	0	4.57	0.56	1
1.1.2 The bank has Code of Business Ethics.	0	0	1	50	41	21	60	29	0	0	3.21	0.87	3
1.1.3 The board creates Corporate Governance Committee.	0	0	1	.8	41	31.5	60	46.2	28	21.5	2.11	0.74	4
1.1.4 The bank has formal Compliance Department.	52	40	77	59.2	0	0	1	.8	0	0	4.38	0.53	2
1.1.5 The bank has on-going awareness program.	0	0	1	.8	25	19.2	40	30.8	64	49.2	1.71	0.79	5

Source: Computation from SPSS analysis

4.1.3.1.1 THE ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE SYSTEM

In this sub section we can observe respondents' view regarding the role of stakeholders in the development of corporate governance system with the bank. Particularly these statements were used to address research question number one. The study found that majority of the respondents rated the following to a very great extent, in relation to statement 1.2.1 which is related to caring stakeholders right ranked first with a mean score 3.13and Std. deviation 1.01. Half of the respondents provide support and show their agreement with the statement. On the other hand the rest 30.7% of the respondents confirm their disagreement with statement 1.2.1 (see Table 4.8).

From the findings, in relation to statement 1.2.2 concerning performance enhancement mechanism of the bank ranked second with a mean score 2.84 and Std. deviation 0.83. Almost to a certain extent of the respondents (42.3%) not agree with statement number 1.2.2. Statement 1.2.4 is related to presentation of sufficient and reliable information to stakeholders on a timely basis ranked third with mean score 2.45 and Std. deviation 1.072. Statement 1.2.3 is related to conditions that of adequate redress for violation of stakeholders rights ranked fourth with mean score 2.35 and Std. deviation 1.018. More than half (61.5%) of the respondents verify their disagreement. Similarly statement 1.2.5 was request stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board ranked fifth with mean score 1.75 and Std. deviation

0.705. From the total respondents 84.6% of the respondents provide disagreement respond and confirm that there is no direct means to communicate their concerns with the board.

Overall in the foregoing findings, the majority of participants agreed with Stakeholder rights that are established by law are respected by the company. conversely the study finding indicate that more than half of the respondents disagree with statements recorded mean scores between 1.75 and 2.73. This indicate that even if the bank respect Stakeholder rights that are established by law most important things unnoticed, considering such items will help to carrying out of good corporate governance without trouble. According to stakeholder theory decisions made regarding the company concern may affected by different parties in addition to stockholders of the company. Hence, the managers should on the one hand manage the company to benefit its stakeholders in order to ensure their rights and their participation in decision making and on the other hand the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long term stakes of each group (Fontaine, C, Haarman, A and Schmid, S, 2006).

According to the study results major issues like Performance enhancing mechanisms for employee, effective redress for violation of rights, providing sufficient and reliable information on timely basis and arranging complimentary communication between board and stakeholder special concerns about illegal or unethical practices unnoticed. Boards and managers have to have a relationship with the stakeholders, and it is argued that this group of network is important and requiring management's attention. Stakeholder theory maintains that managers in organizations are not only responsible for the interests of shareholders but also employees and business partners. A company should be operating by making helpful contributions and by encouraging its directors, managers and employees to form good relationships with each others. It also should be active in promoting the company wellbeing, stakeholders' safety and business issues, including any issues that relate to the specific types of business in which the corporation is engaged.

Table 4.8 Frequency (F), Percentage Distribution (%), Mean and Standard Deviation (SD) of values of the role of stakeholders in corporate governance of the bank

Statements	Str. Agree		Agree		Uncertain		Disagree		Str. Disagree		Mean	St. Div.	Rank
	F	%	F	%	F	%	F	%	F	%			
1.2.1 The bank has care for stakeholder rights	0	0	66	51	24	19	31	24	9	7	3.13	1.01	1
1.2.2 The bank has Performance enhancing mechanism	1	.8	33	25	26	20	70	54	0	0	2.73	0.87	2
1.2.3 Redress for violation of rights of employees	0	0	24	19	26	20	52	40	28	21	2.35	1.02	4
1.2.4 Obtaining information on timely	1	.8	28	21	26	20	48	37	27	21	2.45	1.07	3
1.2.5 Rights to freely Communication with boards.	0	0	0	0	20	15	58	45	52	40	1.75	0.70	5

Source: Computation from SPSS analysis

4.1.3.1.2 DISCLOSURE AND TRANSPARENCY

This section aims to investigate responses concerning the implementation of the disclosure and transparency principle. Table 4.9 shows that statement 1.3.3 which is ‘Information is prepared and disclosed in accordance with International Accounting Standards’ registered the highest level of agreement 90.8%with a mean score 4.26 and Std. deviation 0.62 ranked first. In relation to statement 1.3.4 which is related to annual audit of the company registered second position on the greatest level of agreement 90% with mean score of 4.26 and Std. deviation 0.617. Similarly, responses for Statement 1.3.8 which is related to “The bank publishes an account of its business objectives and its organizational and governance structure” registered third position with the greatest level of agreement 59.2% and with the lower level of disagreement 28.5% by mean score of 3.35 and Std. deviation 0.94.

On the other hand, in relation to Statement 1.3.6 which is related to disclosing board and CEO compensation in annual reports of the bank registered fourth position with the greatest level of disagreement 80.8% by mean score of 3.35 and Std. deviation 0.94. Statement 1.3.2 which is related to the dissemination of information registered fifth position with the level of disagreement 63.9% by mean score of 2.36 and Std. deviation 1.13. Statement 1.3.6 which is related to timely disclosing financial information registered sixth positions with level of disagreement 63.8% by mean score of 2.33 and Std. deviation 1.17. Statement 1.3.5 which is related to plan for human resource development and training registered seventh positions with level of disagreement 63.1% by mean score of 2.30 and Std. deviation 1.09. Statement 1.3.9 which is related to reports on activities of the board registered eighth place with the level of disagreement 80.7% by mean score of 1.80 and Std. deviation 0.74. Finally, Statement 1.3.7 which is related to disclosing risk exposures and strategy for managing risk registered ninth place with the level of disagreement 67% by mean score of 2.30 and Std. deviation 1.09.

Overall in the foregoing findings, the majority of participants agreed with statements recorded mean scores between 4.25 and 3.35. Conversely the study finding indicates that more than 80% of the respondents disagree with statements recorded mean scores between 2.30 and 3.35. In this regard we can recognize from the finding results the corporate governance framework of CBB fail to notice to provide consideration implementation of corporate governance principles. Application of corporate governance principles provide a control mechanism of the company operations and thus encourage the managers to be more successful and promote the company's performance with long-term strategies.

The result from the analysis of the secondary data (from the annual report) also revealed that the bank's annual report includes a section risk management disclosure, explaining its risk and its measurement and managing risk, also the bank's annual report does not explain the incentive structure and remuneration practices for senior management as well and this was also indicated by the interview result that the risk exposures of the bank and the strategies used to manage them are not explained in the bank's annual report. In addition, the information acquired from the interview session and analysis of the secondary data shows as the bank publishes an account of its business objectives and its organizational and governance structure.

As set out in the Basel Committee's paper Enhancing bank transparency, it is difficult to hold the board of directors and senior management properly accountable for their actions and performance when there is a lack of transparency. This happens in situations where the stakeholders, market participants and general public do not receive sufficient information on the structure and objectives of the bank with which to judge the effectiveness of the board and senior management in governing the bank. Transparency can reinforce sound corporate governance. Therefore, public disclosures desirable in the following areas: Board structure (size, membership, qualifications and committees); Senior management structure (responsibilities, reporting lines, qualifications and experience);Basic organizational structure (line of business structure, legal entity structure);

Table 4.9 Responses towards disclosure and transparency.

Statements	Str. Agree		Agree		Uncertain		Disagree		Str. Disagree		Mean	St. Div.	Rank
	F	%	F	%	F	%	F	%	F	%			
1.3.1 Timely disclosing financial information	0	0	35	27	12	9.2	44	33.8	39	30	2.33	1.17	6
1.3.2 Dissemination of information to users	0	0	34	26	13	10	49	38	34	26	2.36	1.13	5
1.3.3 compliance with int. Accounting Standards	46	36	72	55	12	9	0	0	0	0	4.26	0.61	1
1.3.4 independent Annual audit	27	21	90	69	13	10	0	0	0	0	4.11	0.55	2
1.3.5 programs for human resource development	0	0	35	27	13	10	49	37	33	25	2.30	1.09	7
1.3.6 Disclosing board and CEO compensation	0	0	0	0	25	19	53	41	52	40	3.35	0.94	4
1.3.7 Disclosing risk exposures and strategy for managing risk	0	0	30	23	13	10	53	41	34	26	2.30	1.09	9
1.3.8 Disclosure of business objectives and governance structure	5	4	72	55	16	12	37	29	0	0	3.35	0.94	3
1.3.9 Report on activities of the board committee	0	0	0	0	25	19	54	42	51	39	1.80	0.74	8

Source: Computation from SPSS analysis

4.1.3.1.3 OBSTACLES THAT AFFECT CORPORATE GOVERNANCE OF THE BANK.

This section investigates the third objective with respect to the obstacles that might affect the implementation of corporate governance in CBB. To achieve this objective, the participants were provided with a list of barriers and asked to rate the extent to which they thought these barriers might affect the development of corporate governance in CBB. The results in Table 4.13 show that in overall 80.8% of the respondents agreed with the items listed as barriers that might affect the implementation of corporate governance in CBB. Statement 1.4.4 which is related to relationship between executive's management and employees of the company registered first place with higher level agreement response (80%) by mean score of 4.085 and Std. deviation 0.940. Statement 1.4.1 which is "The occurrence of Weak legal controls and law enforcement within the industry" registered second place with higher level agreement response (80%) by mean score of 4.077 and Std. deviation 0.985.

The results in Table 4.10 show that in overall 80% of the respondents disagreed with the items listed as barriers that might affect the implementation of corporate governance in CBB. Statement A.4.5 which is "Good relationship between the company and the external auditors" registered third place with higher level disagreement response (80%) by mean score of 1.877 and Std. deviation 0.078. From the findings statement number 1.4.3 which is "The costs of practicing good corporate governance outweigh the benefits" registered fourth place and the least important barrier with the higher level disagreement response (80.3%) by mean score of 1.831 and Std. deviation 0.769. statement number 1.4.2 which is "Absence of legal and regulatory systems that govern companies' activities" registered fifth place and the smallest amount important barrier when comparing with other barriers with the higher level disagreement response (80.1%) by mean score of 1.823 and Std. deviation 0.772.

Overall in the foregoing findings indicate that more than 80% of the respondents have almost the same opinion and perception and from the listed obstacles they point out weak legal controls and law enforcement within the industry and weak relationship between executive's managements and employees of the bank are possible barriers for the implementation of good corporate governance. Conversely the study finding indicates that the rest listed obstacles are not feasible means of barriers for the implementation of good corporate governance within the bank. The perception of stakeholders on possible obstacles and enablers to the development of the implementation of corporate governance practice is very important. Developing consistent relationship between executive's managements and employees of the bank and stay away from the traditional culture is one of the enabler mechanisms to the improvement of corporate governance practice. On the other hand Supervisors typically check to ensure that a bank is being properly governed and bring to management's attention any problems that they detect through their supervisory efforts. Supervisors should be attentive to any warning signs of deterioration in the management of the bank's activities.

They should consider issuing guidance to banks on sound corporate governance and the pro-active practices that need to be in place. They should also take account of corporate governance issues in issuing guidance on other topics (Basel, 1999). When the relationship between executive's managements and employees of the bank becomes weak the organizational commitment also leads to lower levels and this lead to absenteeism and turnover and it is a better indicator of job dissatisfaction. Dissatisfied employees not give their best to the organization and then not get better their performance.

Table 4.10 Frequency (F), Percentage Distribution (%), Mean and Standard Deviation values of responses on disclosure and transparency

Statements	Str. Agree		Agree		Uncertain		Disagree		Str. Disagree		Mean	St. Div.	Rank
	F	%	F	%	F	%	F	%	F	%			
1.4.1 Existence of weak legal controls and law enforcement.	52	40	52	40	10	7.7	0	0	16	12.3	4.08	0.98	2
1.4.2 Absence of legal and regulatory systems	0	0	1	0.8	26	20	52	40	51	39.2	1.82	0.77	5
1.4.3 The costs of good corporate governance	0	0	1	0.8	26	20	53	40.8	50	38.5	1.83	0.76	4
1.4.4 Poor relationship between management and employees	50	39	54	41	13	10	13	10	0	0	4.09	0.94	1
1.4.5 Good relationship between the company and external auditors.	1	0.8	1	0.8	23	17.7	61	46.9	44	33.8	1.88	0.78	3

Source: Computation from SPSS analysis

4.1.3.2 BOARD ISSUES

This part examines respondents' perceptions regarding the board of directors of the bank. The board is ultimately responsible for the activities and results of the bank, for the maintenance of stability and financial soundness. These questions were used to addressee research question and to achieve the research objective; the participants were provided with a list of topic and asked to rate the extent to which they thought this subject might affect the development of corporate governance in CBB.

4.1.3.2.1 BOARD ACTIVITY INTENSITY

In this sub section the study examines respondent's response in relation to the activity of a board. The analysis of the respondent's response in relation to board activity intensity helps to answer the research question three and four and to achieve the third research objective. Besides it is a key indicator to reach a certain conclusion how firm performance affected by board activity as well as it is important resource for improving the effectiveness of a board.

The results in Table 4.11 show that in overall most of the respondents agreed with the items listed towards board activity intensity. Statement 2.1.2 which is "Board meeting time is an important resource for improving the effectiveness of a corporate board" registered first place with higher level agreement response 80%, by mean score of 4.09 and Std. deviation 0.94. Statement 2.1.4 which is "Increasing the level of board activity through board meetings leads to good firm performance" registered second position with level agreement 77%, by mean score of 3.61 and Std. deviation 1.03. Statement 2.1.3 which is "Boards that meet more frequently tend to generate higher financial performance" registered third position with level agreement response (72%) by mean score of 3.39 and Std. deviation 1.04. statement number 2.1.1 which is "Effective board meetings provide useful information in a timely manner which is critical for any board's effectiveness" registered fourth place with the smallest level agreement response 59%, by mean score of 3.24 and Std. deviation 1.09.

In overall we can recognize from the foregoing findings, the majority of participants agreed with statements recorded mean scores between 3.24and 4.09. The activity of a board yields either proactive or reactive results. A well-trained, professional, and dedicated board is the most effective means to ensure sound bank governance. It is also broadly accepted that a professional board can be a key contributor to bank performance. Sufficient guidance on board practices should be available. Minimum standards are typically set in law, while best practices are generally set in voluntary codes. Boards should inform themselves and be aware of what is expected of them and what standards they are expected to comply with.

According to an early empirical investigation on board meeting by Vafeas (1999), he found an increase in the level of board activity through board meetings. Lipton and Lorsch (1992) also suggest that "the most widely shared problem directors face is lack of time to carry out their duties". In a similar argument, Conger et al (1998) suggest that board meeting time is an important resource for improving the effectiveness of a corporate board. Ntim and Osei (2011) found that there is significant and positive association between the frequency of corporate board meetings and corporate performance. So that the current study results are consistence with former research findings. The Basel committee for Banking Supervision (2006) recommends that having sufficient knowledge about board activity and the company is a very important element of the good corporate governance. Being knowledge full is an indicator that the board members can undertake their functions properly.

Table 4.11 Responses towards board activity intensity

Statements	Str. Agree		Agree		Uncertain		Disagree		Str. Disagree		Mean	St. Div.	Rank
	F	%	F	%	F	%	F	%	F	%			
2.1.1 Effective board meetings on board's effectiveness.	18	14	41	32	26	20	44	34	1	0.8	3.24	1.09	4
2.1.2 Board meeting time is an important resource for board's effectiveness.	51	39	53	41	13	10	13	10	0	0	4.09	0.94	1
2.1.3 Frequent board meeting generate higher financial performance.	33	25	39	30	19	15	24	19	15	11	3.39	1.04	3
2.1.4 Increasing the level of board activity through board meetings leads to good firm performance.	27	21	51	39	26	20	26	20	0	0	3.61	1.03	2

Source: Computation from SPSS analysis

4.1.3.2.2 ROLE AND RESPONSIBILITY OF BOARD DIRECTORS

This section aims to investigate responses concerning the roles and responsibilities of the board of directors of the bank. Table 4.12 illustrates the respondents' views concerning roles and responsibilities of the board of directors. Statement 2.2.7 brings out the respondents' opinion which is "The board has approved a strategic plan for the company". This statement acquire the highest level of agreement (80.8%) with a mean score 3.91 and Std. deviation 0.72 ranked first. In relation to statement 2.2.9 which is “The Board maintains a direct communications channel with internal and external auditors.” registered second position on the level of agreement (90%) with mean score of 3.39 and Std. deviation 0.63. Statement 2.2.4 which is inquired about board supervision registered third positions with the level of resistance to this statement 62.3% and by mean score of 3.18 and Std. deviation 1.16. Similarly, Statement 2.2.1 brings out the respondents’ opinion on whether Board members act in the best interests of the company. It is registered fourth position with the level of resistance (50%) by mean score of 2.96 and Std. deviation 1.16.

Conversely responses for statement 2.2.6 which is “The board supervises the process of disclosure and communication” registered fifth position with the level of disagreement (56.9%) by mean score of 2.56 and Std. deviation 0.71. Statement 2.2.3 which is inquired about “The board monitors the effectiveness of the company’s governance practices” registered sixth position with the level of disagreement (77%) by mean score of 2.45 and Std. deviation 1.25. Statement 2.2.8 which was inquired “Board members are able to devote sufficient time to their responsibilities” registered seventh positions with the level of disagreement 78.5% and with mean score of 1.85 and Std. deviation 0.82. Statement 2.2.5 which was requested “The board monitors and manages potential conflicts of interest of managements” registered eighth place with the higher level of disagreement 79.2% and with mean score of 1.83 and Std. deviation 0.81. Finally, Statement 2.2.2 which was requested “The board takes stakeholders’ interests into account” registered ninth place with the higher level of disagreement 82.3% and with mean score of 1.78 and Std. deviation 0.75.

In overall we can recognize from the foregoing findings, the majority of participants agreed with statements recorded mean scores between 3.39 and 3.91. On the contrary the study result indicates that the majority of participants disagreed with statements recorded mean scores between 3.18 and 1.78. It is important that members of the board should perform their duties with engagement. It is necessary to keep formal rigorous assessments of the board and its members, and the report of the assessment should be available (some codes of governance are explicitly the requirement for such assessments at least once a year). This is to ensure that the board (and its individual members) fulfils its task due, and it includes the persons characterized by professionalism, meeting the specific requirements of the supervised company (BCBS, 2006).

The principal tasks of the board are to appoint and dismiss management and to approve and oversee bank strategy and monitor its implementation. More specific tasks (sometimes exercised within specialized committees) involve setting the basic direction of, approving, and overseeing, among others, risk strategy and risk tolerance; risk management and compliance; internal systems of control, including internal audit; the corporate governance framework; and the compensation system as well. The study result indicates that the board does not carry out annual evaluation of its committees and its members this indicates that the boards maintains effective associations with internal and external auditors and watch and approve a strategic plan for the company.

On the other side the study result indicates that the board do not consider stakeholders' interests and not takes into account to ensure the strategic guidance of the company; and also inefficient supervision of the effectiveness of the company's governance practices and not watch over the process of disclosure and communication; deficient in monitoring and managing potential conflicts of interest of managements, and need to devote sufficient time to their responsibilities. Relative to this the bank fails to notice the corporate governance framework for the implementation of some corporate governance principles. The duty of care requires that board members exercise reasonable care, prudence, and diligence in their oversight of the bank. The practical implications of this duty are that board members are expected to satisfy themselves that decision-making structures and reporting and compliance systems are functioning properly. The practical implication of the duty of loyalty is that board members are required to act in the interest of the bank and refuse any action, or to take part in any deliberation, in which they have a conflict of interest with in the bank.

Table 4.12 Responses on role and responsibility the board

Statements	Str. Agree		Agree		Uncertain		Disagree		Str. Disagree		Mean	St. Div.	Rank
	F	%	F	%	F	%	F	%	F	%			
2.2.1 Board members act in the best interests of the company and the owners.	1	0.8	64	49.2	11	8.5	37	28.5	13	25.4	2.96	1.16	4

2.2.2 The board takes stakeholders' interests into account.	0	0	1	0.8	22	17	55	42	52	40	1.78	0.75	9
2.2.3 The board monitors the effectiveness of the company's governance practices.	5	3.8	34	26.2	13	10	41	31.5	37	28.5	2.45	1.25	6
2.2.4 The board controls the operations of the firm and the activities of the CEO.	2	1.5	79	61	5	4	28	21	16	12	3.18	1.16	3
2.2.5 The board monitors and manages potential conflicts of interest of managements.	1	0.8	1	0.8	25	19.2	52	40	51	39.2	1.83	0.81	8
2.2.6 The board supervises the process of disclosure and communication.	0	0	17	13.1	39	30	74	56.9	0	0	2.56	0.71	5
2.2.7 The board has approved a strategic plan for the company.	21	16.2	84	64.6	18	13.8	7	5.4	0	0	3.91	0.72	1
2.2.8 Board members are devote sufficient time to their responsibilities.	1	0.8	1	0.8	26	20	52	40	50	38.5	1.85	0.82	7
2.2.9 The Board maintains a direct communications channel with internal and external auditors.	0	0	61	46.9	59	45.4	10	7.7	0	0	3.39	0.63	2

Source: Computation from SPSS analysis

4.1.3.2.3 EFFICIENCY AND EFFECTIVENESS OF THE BOARD

This section aims to investigate responses concerning the efficiency and effectiveness of the board of directors of the bank. Table 4.13 illustrates the respondents' views concerning efficiency and effectiveness of the board of directors. In response to statement number 2.3.1 as shown in the table below which deals with 'The board members are educationally qualified and very well experienced', can acquire the highest level of agreement (80%) with a mean score 3.56 and Std. deviation 1.14 ranked first. Statement 2.3.4 which is inquired about "boards have sufficient information and time that enables them to give strategic guidance of the bank" registered fourth place with the level of disagreement (54.6%) by mean score of 3.15 and Std. deviation 0.97. deviation 0.97.

On the contrary, Statement 2.3.5 which is regarding the board knowledge of the bank and the board functions registered third position; and acquire the level of agreement (38.4%) with mean score of 3.02 and Std. deviation 1.06. A response for statement 2.3.3 brings out the respondents' opinion on whether the board carries out annual evaluation of itself, its committees and its members. It is registered forth position with the level of agreement (54.6%) by mean score of 3.15 and Std. deviation 0.97. Similarly, Statement 2.3.2 which was requested "The bank has a formal orientation program for new board members, and organize training sessions for existing board members" registered fifth place with the higher level of disagreement (80.7%) and with mean score of 1.88 and Std. deviation 0.80. Organizations should become up to date with new directors that include materials and meetings with key management designed to familiarize new directors with the Company's business, operations, finances, and governance practices. Organizations should develop a mechanism by which they strengthen the governance skills of their board members. The Board should encourage directors to participate in education programs to assist them in performing their responsibilities as directors. In overall we can recognize from the foregoing findings, the majority of participants agreed with statements recorded mean scores between 3.39 and 3.91. However statements recorded mean scores less than 3.39 disagree, this result implies that the board not carries out annual evaluation of itself, its committees and its members and not has adequate knowledge of the bank and this may affect negatively the management decisions which are then translated into the firm's performance.

According to the Banking Business Proclamation No. 592/2008, board members are jointly and severally liable to the bank for damage caused by their failure to properly carry out their duties although it indicates them nothing about the performance evaluation. As a result it advises that the board should have formal procedures to assess both their own collective performance and that of individual directors so that boards might usefully consider in the interest of continuous improvement. The study result indicates that the board does not carry out annual evaluation of its committees and its members. Comparative to this the bank fails to notice the corporate governance framework for the implementation of some corporate governance principles. Evaluations can be extremely useful in benchmarking the board against best practice, identifying gaps, and generating ideas for improvements. Evaluations should always culminate in plans for how to improve the bank's governance.

Table 4.13 Responses on efficiency and effectiveness of the board

Statements	Str. Agree		Agree		Uncertain		Disagree		Str. Disagree		Mean	St. Div.	Rank
	F	%	F	%	F	%	F	%	F	%			
2.3.1 The board members are educationally qualified and very well experienced.	28	21.5	54	41.5	15	11.5	29	22.3	4	3.1	3.56	1.14	1
2.3.2 The bank has a formal orientation program and organize training sessions for existing board members.	2	1.5	0	0	23	17.7	61	46.9	44	33	1.88	.80	5
2.3.3 The board carries out annual evaluation of itself, its committees and its members	11	8.5	19	14.6	29	22.3	66	50.8	5	3.8	2.73	1.04	4
2.3.4 All members of the board have sufficient information and time that enables them to give strategic guidance of the bank	0	0	71	54.6	7	5.4	52	40	0	0	3.15	0.97	2
2.3.5 the board has adequate knowledge of the bank and the board functions	11	8.5	35	26.9	34	26.2	45	34.6	5	3.8	3.02	1.06	3

Source: Computation from SPSS analysis

4.1.3.3 ISSUES REGARDING MANAGEMENT SUPERVISION

This section intends to investigate responses concerning the supervision of the managements of the bank. Table 4.14 illustrates the respondents' views concerning the managements of the bank. In response to statement 3.1.1 as shown in the table below which is related with presenting annual financial records to an external auditor can acquire the highest level of agreement (86.1%) with a mean score 4.11 and Std. deviation 0.61 ranked first. Statement 3.1.10 which is inquired about decisions when, how and by whom to be made within appropriate processes at various levels in the organization" registered second place with the level of agreement (79.3%) by mean score of 4.07 and Std. deviation 0.96. Similarly, responses for Statement 3.1.8 which is "The management of the bank regularly observes the implementation of policies and procedures and takes appropriate actions when employees break rules" registered third place with the level of agreement (76.9%) by mean score of 3.75 and Std. deviation 0.92. last but not least, statement 3.1.3 obtained similar responses, which was requested “Systems have been set up for the resolution of conflicts of interest” registered fourth place with the level of agreement (53.1%) by mean score of 3.18 and Std. dev. 1.28.

On the other hand, Statement 3.1.7 which is “The management of the bank develops individual values, institutional values and behavioral expectations to support the implementation of the goals, strategies and plans of processes.” registered fifth position; from the total respondent response it can acquire the level of disagreement (79.2%) with mean score of 4.08 and Std. deviation 0.96. Statement 3.1.2 brings out the respondents’ opinion on “The principle of transparency” registered sixth position with the smallest level of disagreement (63.1%) by mean score of 2.40 and Std. deviation 1.16. Similarly, Statement 3.1.5 which was requested “The management of the bank motivates employees to perform their duties at their highest capabilities” registered seventh place with the level of disagreement (63.9%) and with mean score of 2.36 and Std. deviation 1.13. Similarly Statement 3.1.4 which was requested related with the code of conflict of interest registered eighth place with the level of disagreement (68.5%) and with mean score of 2.26 and Std. deviation 1.02. Statement 3.1.6 “The management of the bank provides alert response to every issue regarding the bank” registered ninth place with the same and highest level of disagreement (75.4%) and with mean score of 2.00 and Std. deviation 0.96. Statement 3.1.9 which is related to development of clear and flexible career paths and development and retention, registered tenth place with the level of disagreement (75.4%) and with mean score of 1.95 and Std. deviation 0.93. Statement 3.1.11 which was requested “disclosing material interests in any transaction or matter directly affecting the company” registered last place with the level of disagreement (81.5%) and with mean score of 1.86 and Std. deviation 0.75.

In overall we can recognize from the foregoing findings, the majority of participants agreed with statements recorded mean scores between 3.18 and 4.11. However the majority of participants disagreed with statements recorded mean scores less than 3.18. This indicates that even if the bank made a system to resolve conflicts of interest, the system not revised regularly and not contains recommendations and suggestions of stakeholders. Although, the management of the bank neglect to disclose material interests in any transaction or matters that directly affecting the company; more to the point, transparency is not observed in conveying information to stakeholders, particularly on associated with conflicts of interests. The management of the bank not develops individual values, institutional values and behavioral expectations to support the implementation of the goals, strategies and plans that are established for appropriate processes. The study also finds out the management of the bank not ready to give fast responses to every issue regarding the bank, there is no enthusiasm at all. As a result of these employees are not stimulated very well to perform their duties effectively. In addition to this the study find out there is no clear and flexible employee's career paths development.

Senior management is a key component of corporate governance. While the board of directors provides checks and balances to senior managers, similarly, senior managers should assume that oversight role with respect to line managers in specific business areas and activities. Even in very small banks, key management decisions should be made by more than one person ("four eyes principle"). Senior management consists of a core group of officers responsible for the bank. This group should include such individuals as the chief financial officer, division heads and the chief auditor. These individuals must have the necessary skills to manage the business under their supervision as well as have appropriate control over the key individuals in these areas.

Table 4.14 Responses towards management supervision

Statements	Str. Agree		Agree		Uncertain		Disagree		Str. Disagree		Mean	St. Div.	Rank
	F	%	F	%	F	%	F	%	F	%			
3.1.1 The bank management submits its annual financial records to an external audit.	32	24.6	80	61.5	18	13.8	0	0	0	0	4.11	0.61	1
3.1.2 The principle of transparency is observed particularly on associated operations and conflicts of interest.	2	1.5	33	25.4	13	10	49	37.7	33	25.4	2.40	1.16	6
3.1.3 Systems have been set up for the resolution of conflicts of interest.	16	12.3	53	40.8	18	13.8	24	18.5	19	14.6	3.18	1.28	4
3.1.4 The code is revised regularly and contains recommendations and suggestions.	5	3.8	10	7.7	29	22.3	56	43.1	33	25.4	2.26	1.02	8
3.1.5 The management of the bank motivates employees to perform their duties at their highest capabilities.	0	0	34	26.2	13	10	49	37.7	34	26.2	2.36	1.13	7

3.1.6 The management of the bank provides alert response to every issue regarding the bank.	2	1.5	9	6.9	21	16.2	53	40.8	45	34.6	2.00	0.96	9
3.1.7 The management of the bank develops individual values, institutional values and behavioral expectations etc.	22	16.9	33	25.4	6	4.6	56	43.1	13	10	2.96	1.33	5
3.1.8 The management of the bank regularly observes the implementation of policies and procedures and takes actions when employees break rules.	20	15.4	80	61.5	7	5.4	23	17.7	0	0	3.75	0.92	3
3.1.9 The management of the bank develops clear and flexible career paths and focus on career development and retention.	1	0.8	8	6.2	23	17.7	50	38.5	48	36.9	1.95	0.93	10
3.1.10 It is clear when, how and by whom decisions are to be made within appropriate processes at various levels in the organization.	50	38.5	53	40.8	13	10	14	10.8	0	0	4.07	0.96	2

Source: Computation from SPSS analysis

4.1.3.4 ISSUES REGARDING COMMITTEES OF THE BOARD

In this sub section the study examines respondent's response in relation to the activity of committees of the board. The analysis of the respondent's response in relation to board committees' helps to answer the research question three and four and also to achieve the third research objective. Besides it is a key indicator to reach a certain conclusion how firm performance affected by board committee activity as well as it is important source for improving the effectiveness of a corporate board.

4.1.3.4.1 AUDIT COMMITTEE OF THE BOARD

This section deals with the presentation and analysis of the findings of the study regarding audit committees of the board. Table 4.15 illustrates the respondents' views concerning audit committees of the board. Out of the total number of questions raised in this sub section respondents provide supportive response to all question raised, on average more than 68% of members of the respondents supported these statements and almost equivalent level supporting responses obtained from each respondent group. Statement 4.1.1 as shown in the table below which deals with "The audit committee monitors the integrity of financial statements of the bank" it is a means to improve the viability of the bank, can acquire the highest level of agreement (82.3%) ranked first with a mean score 4.13 and Std. deviation 0.69. Statement 4.1.2 which is "The audit committee reviews the work plan of the external auditors and the internal auditors, and reviews the results of their work" registered second position with the level of agreement (79.3%) with mean score of 4.07 and Std. deviation 0.96.

Similarly, responses for Statement 4.1.3 which is inquired about "Audit committee consists independent outside directors" registered third place with the level of agreement (70.7%) by mean score of 3.81 and Std. deviation 0.65.Statement 4.1.4 brings out the respondents' opinion on "The Audit committee devote sufficient time to their responsibilities and act in the best interests of the company" is registered forth position with the slightest level of agreement (60%) by mean score of 3.61 and Std. deviation 1.02. In the same way, Statement 4.1.5 which was requested area under discussion regarding "There is a Regulation on the Audit Committee approved by the Board" registered fifth place with the lower level of agreement (51.6%) and with mean score of 3.37 and Std. deviation 1.21.

Among committees, the audit committee is primary. Each year, the board is required to provide the stakeholders with an assurance of the ongoing integrity of the bank's financial reporting, systems of internal control, and risk management. For this assurance, the members of the board rely on the audit committee and, through it, the internal audit department and the external auditor. Given the potential for conflict of interest, the audit committee is best staffed by independent members to exercise objective and arms-length oversight of the internal and external auditors. The audit committee reviews the work plan of the external auditors and the internal auditors, and reviews the results of their work and also the Audit committees of the bank devote sufficient time to their responsibilities and act in the best interests of the company. According to early research works of Al-Matari et al. (2012) and Chan and Li (2008) there is significant positive relationship between audit committee independence and firm performance and also that an independent audit committee can reduce agency problems.

In general we can recognize from the foregoing findings, the majority of participants agreed with the statements, this result disclose that audit committee of the bank structured very well and consists independent outside directors, and this also help to meet their responsibilities and to act in the best interests of the company to assuring the integrity of financial statements of the bank. An audit committee is important corporate governance mechanisms in firms to protect the interests of stakeholders and to oversee the financial reporting. The existence of audit committee will create a transparent and credible environment between management, external auditors and the board members. These findings are generally consistent with the prediction of a positive association between corporate governance and firm performance.

Table 4.15 Frequency (F), Percentage (%), Mean and Standard Deviation, Skewness and Kurtosis of responses towards the Audit committee of the board.

Statements	Str. Agree		Agree		Uncertain		Disagree		Str. Disagree		Mean	St. Div.	Skewness	Kurtosis	Rank
	F	%	F	%	F	%	F	%	F	%					
4.1.1 The audit committee monitors the integrity of financial statements of the bank	40	30.8	67	51.5	23	17.7	0	0	0	0	4.13	0.69	-.17	-.86	1
4.1.2 The audit committee reviews the work plan of the external auditors and the internal auditors, and reviews the results of their work.	50	38.5	53	40.8	13	10	14	10.8	0	0	4.07	0.96	-.89	-.07	2
4.1.3 Audit committee consists independent outside directors.	15	11.5	77	59.2	36	27.7	2	1.5	0	0	3.81	0.65	-.14	.02	3

4.1.4 The Audit committee devote sufficient time to their responsibilities and act in the best interests of the company	26	20	52	40	26	20	26	20	0	0	3.60	1.02	-.27	-1.04	4
4.1.5 There is a Regulation on the Audit Committee approved by the Board.	30	23.1	37	28.5	14	10.8	49	37.7	0	0	3.37	1.21	.06	-1.58	5

Source: Computation from SPSS analysis

4.2 ANALYSES OF INTERVIEW DATA

The previous section reported the results of the analyses of the relationship between the corporate governance and firm performance obtained from the questionnaire survey. This subdivision discusses the results of the interview data in accordance with the research objectives. Furthermore a cross checking of the interview data results with the questionnaires survey result of the study were made in conjunction with discussion results.

The study result indicates that, views regarding the corporate governance culture of the bank, from the entire respondents the majority of the respondents commonly speaking the extent of the application of the corporate governance practice of CBB is discouraging, the bank has still a problem with regard to ensuring the efficiency and effectiveness of the board and management concerning with the transparency and disclosure of material information. However in common the performance of the bank, in particular the profitability of this institution has been highly influenced by the existing corporate governance practices, which is weak application of corporate governance, and it is considered by all the respondents as a bad indicator of how the company is currently run below the predetermined objectives, most of them expressed their consistency view concerning the corporate governance practice of the bank. This result also consistent with the questionnaire survey result of the study.

Interviewees reaction concerning fulfilling the responsibilities of the board committee’s and the management of bank, almost most of them expressed their attitudes not fulfilling their roles and responsibilities effectively. The board entails is approving and monitoring the bank's strategy, setting performance indicators for management and seeing the bank's progress, but not ensuring the implementation of strategic policies, improving the performance and governance mechanism of the bank, every one of the board members are government officials and do not have sufficient time that enables them to give strategic guidance to the bank and also board members also not understand or neglect the risks which the bank is taking at present. In the same manner, the result of the questionnaire survey also displays this result that the board and management of the bank not completely effective in discharging their roles and responsibilities.

In relation to efficiency of the management, the majority of them expressed it is discouraging. Management of the bank not organized to give quick responses to every issue regarding the bank.
In CBB doing with risk not developed by foremost decision makers, everybody wants to avoid risks especially the senior management not wants to take risk; risk-taking is fundamental driving force in business and entrepreneurship. Effective risk management is the concern the corporate governance practice. So that risk management practice of the bank should be improved by assessing the bank's exposure to risks; monitor exposure and conduct consequential; monitor and assess decision making as it relates to risk, in particular, whether risk decisions are in line with board-approved risk tolerance and policy. Furthermore the management of the bank not stimulates employees to perform their responsibility at their highest capabilities. In the same manner, the result of the questionnaire survey also displays that, the management of the bank is not ready to do quick response to every issue regarding the bank; there is no enthusiasm at all along with existence of hidden career paths development employees are not stimulated to perform their duties effectively. In general consistent results were obtained from interview data results with the questionnaires survey result of the study.

Currently private commercial banks well performed than state owned banks like CBB, and also CBB has less performed than the other state owned banks. The type of ownership of the bank (state or private) does not affect the bank's profitability significantly. Privately owned firms in general perform well as compared to stated-owned ones. This might be due to the fact that good management guidance, supervision and flexible operation systems of the bank together make a difference in bank performance. Even the source of trained and experienced manpower of private banks is the stat owned ones. Especially, almost all people holding higher, middle and lower managerial positions in private banks came from the state-owned banks. There is no difference between the private and state banks in terms of the type and quality of service both provide. The most important thing is get-together all people at all positions to discharge their roles and responsibilities effectively to meet the bank objective. In overall the interviewers response indicate that the corporate governance system of CBB run little far from the expected and needs improvement and a cause for the existing performance steps backward of the bank.

The findings also suggest that association between association between the board committee and between the board and the senior management of the bank should actively take part in establishing good corporate governance in the banks. In addition the National Bank of Ethiopia should encourage banks to implement good corporate governance practices through enacting rules and regulations. According to the respondent response currently weak association seen between the senior management of the bank and line managers, between line managers and employees of the bank, keeping such good relation sheep will help to improve profitability of the bank. Conclusively, the bank must qualify its directors and managements with required training qualifications in accordance with the Corporate Governance and these programs could help to shape their integrity, efficiency and enhance corporate governance quality of the bank. This result also consistent with the questionnaire survey result of the study, weak relationship between executive's managements and employees of the bank are possible barriers for the implementation of good corporate governance within the bank.

In general the interviewee indicates that there is no clear transparency of information on the bank areas like promotion and transfer of employees, around credit approval and engineering estimation and collateral valuation of the debtors. This result consistent with the questionnaire survey result of the study. They suggests as a conclusion transparency is essential for sound and effective corporate governance. Just before creating good administration and operating system and to run the bank efficiently and effectively, there needs to be a properly organized and consistent system of governance procedures and governance structures. Since banks are complex institutions, which are used to operating under strictly controlled conditions, it is difficult for a bank to organize such a coherent system of governance. Board members need to be diligent and capable and their performance needs to be assessed. As a result, good governance is distinct and most important issue to the development of financial sector and a healthy operation of the banking system and the integrity of financial markets as well.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.1 SUMMARY OF MAJOR FINDINGS

- The findings of this study have pointed out the bank should construct internal controls procedures, risk and compliance supervision and code of business ethics to govern the work and the activities of its entire department, however the most important activities like organizing Corporate Governance Committee and applying on-going program to raise employee awareness to strengthening governance are unnoticed. This implies that the corporate governance setting of the bank is not well-built.
- The study result indicates that the bank respect stakeholder rights that are established by law, on the other hand some important limitations are found like ineffective redress for violation of stakeholders' rights, not providing sufficient and reliable information on timely basis and unfeasible complimentary communication between board and stakeholder.
- The study result indicates that financial information's are prepared in accordance with international Accounting Standards and the management of the bank presents financial reports to external auditor to insure the reliability of the financial records of the bank.
- The study result indicates that the board does not carry out annual evaluation of its committees and its members. Relative to this the bank fails to notice the corporate governance framework for the implementation of some corporate governance principles.
- Findings also show that majority of the organization employees expressed weak legal controls and law enforcement within the industry and weak relationship between executive's managements and employees of the bank are possible barriers for the implementation of good corporate governance.
- The study results showed the management of the bank has made an arrangement for the resolution of conflicts of interest and regularly observes the implementation of policies and procedures and it takes appropriate actions when employees violate rules. However the system is not revised regularly and does not contain recommendations and suggestions of stakeholders.

Although, the principle of transparency is not observed in conveying information to stakeholders, particularly on associated with conflicts of interests.

- Findings also show that decisions are made visibly within processes at various levels within the organization, the management of the bank is not ready to do quick response to every issue regarding the bank; there is no enthusiasm at all and also existence of hidden career paths development shown from the result, As a result employees are not stimulated to perform their duties effectively. This also have an adverse effect on bank performance.
- The board committee of the bank is structured very well, which means the audit committee of the bank consists independent outside directors, the risk committee of the board advises the board on potential risks matters and risk management, and also the remuneration committee of the bank ensures that the executive directors and key management of the bank are fairly rewarded. This indicates that the board committee acts in the best interests of the company with the purpose of assuring the integrity, effectiveness and long-term well-being the bank.

5.2 CONCLUSIONS

Good corporate governance system assists firms to construct sustainable economic development along with strong performance and competitive capacity. Good corporate governance is a foundation to build long term viable and smooth relationship with the stakeholders of the firm and the corporate governors. It assists to create transparent, equitable, accountable and effective business developments. Building strong corporate governance mechanisms assist firms to throw away their challenges that disturb the sound wellbeing and existence of the firm by sweeping the road to reach the desired destination. In this respect, from the study finding we can conclude that the setting of corporate governance in CBB still has a setback and need improvement with regard to ensuring the efficiency and effectiveness of the board and management, organizing Corporate Governance Committee, effective redress for violation of rights, providing sufficient and reliable information to users on timely basis and facilitation complimentary communication between board and stakeholder.

Concerning the implementation of the roles and responsibilities of the board and the management of the bank, the finding of the study disclosed that the board and management of the bank not completely effective in discharging their roles and responsibilities. As a good side, the current board and board committee of the bank structured very well, maintain useful relations with internal and external auditors. However, the board and the management show inefficient effort to supervise the implementation of strategic policies, the bank performance and governance system of the bank. Such unconcerned activities have an adverse effect on the current bank performance, so that the Board and the management of the bank should understand the risks which the bank is taking at present and must be anxious to watch over the opportunities to increase the performance of the bank. Overall the study primary data analysis results indicate that the corporate governance of the bank has a consequence on the existing performance. In general this study supports the argument that when firms implement good corporate governance, the result is improved firm performance.

5.3 RECOMMENDATION

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

- The bank should create formal program to raise employee awareness in governance practice of the bank. An awareness program should be available to enable employees to gain an understanding of the company's financial, strategic, and operational and risk management position, and help employees to know their rights, duties and their responsibilities.
- The bank must qualify its directors and managements with training in accordance with the Corporate Governance. These programs help to shape their integrity, to create effective management and to get advice on how to enhance corporate governance quality in its own company. In addition, these programs should contain efforts to overcome potential obstacles and enable corporate governance implementation.
- The Boards should encourage the management of the bank to participate in education programs to assist them in performing their responsibilities and to increase individual performance and the bank performance as well.
- The board members should examine and acquire sufficient information and provide sufficient time to give strategic guidance to the bank. These in turn help them effectively carry out their duties and responsibility effectively and in turn they can improve the performance and governance mechanism of the bank as well.
- Transparency is essential for sound and effective corporate governance. Lack of transparency, It is difficult for stakeholders to effectively monitor the activities of the board of directors and senior management. With this intention the management of the bank made an arrangement for

the resolution of conflicts of interest without impediment and improves the system regularly through taking recommendations and suggestions from stakeholders when it is necessary.

- The performance of the board and the senior management of the bank should be evaluated annually, and also the performance of board committees. The board annual self evaluations is important to determine whether it and its committees are following the procedures necessary to function effectively in order to determine whether the organization is going in the right direction or not and to measure its performance.
- The bank senior management should construct possible relationship with the board and between the board and the employees of the bank through arranging different mechanisms like by inviting directors at get together ceremony of the bank, inviting directors in annual employee meeting, arranging trainings and inviting directors etc., these manners actively take part in establishing feasible relationship between the board and the employees of the bank and this also have a possession in order to earn better and increase bank performance.
- The management of the bank should always be ready to make quick response to every issue regarding the bank; further more enthusiastically performance standards should be assessed, improved and communicated to the employees. This will help employees to improve their attitudes and achieve the standards and perform well.
- CBB shall create supplementary performance enhancement mechanisms to its employees just like job participation that will help for employee's empowerment. This will enable it to increase employee's attitude towards their job and job performance.
- CBB shall make continuous assessment and receiving of feedback from its employees, such feedbacks will serves as a moral boost that the employee is contributing positively to the organization and an input for the future the bank performance management plan.
- The National Bank of Ethiopia should encourage banks to implement good corporate governance practices through enacting rules and regulations.

References

A.C. Fernando (2006). Corporate Governance: Principles, Policies, and Practices. Pearson Education. P.12

Abdullah, H & Valentine, B (2009). Fundamental and ethics theories of corporate governance. Middle Eastern Finance and Economics Journal, Issue 71.

Ashenafi Beyene Fanta, Kelifa Srmolo Kemal, Yodit Kassa Waka (2013). Corporate Governance and impact on Bank Performance. Journal of Finance and Accounting.Vol. 1, No.1, pp.19.

Abreham Amanuel Yemane, Professor M. Lakshmipathi. Raju, Professor R. Madhusudana Raju (2015). The Impact of Corporate Governance on Firm's Performance: Evidence from Ethiopian Insurance Companies, Research Journal of Finance and Accounting ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol.6, No.9,

Adams, RB & Ferreira, D 2007, A theory of friendly boards, The Journal of Finance, vol. 62, no. 1, pp. 217–250.

Al Matari, M. & Hasan, HM (2012), The Effect of Corporate Governance, Corporate Financing Decision and Ownership Structure on Firm Performance: A Panel Data Approach from Kuwait Stock Exchange, 3rd Conference on Financial Markets and Corporate Governance, Melbourne, pp.1-27, Available at SSRN:

Ayandele, I & Emmanuel, IE (2013), Corporate governance practices and challenges in Africa, European Journal of Business and Management, vol. 5, no. 4, pp. 51–59.

Anthony Kyereboah Coleman, Nicholas Biekpe, (2006) "The link between corporate governance and performance of the nontraditional export sector: evidence from Ghana", Corporate Governance: The international journal of business in society, Vol. 6 Iss: 5, pp.609

Baydoun, N, Maguire, W, Ryan, N & Willett, R (2013), Corporate governance in five Arabian Gulf countries, Managerial Auditing Journal, vol. 28, no. 1, pp. 7–22.

Braga-Alves, MV & Shastri, K (2011), 'Corporate governance, valuation, and performance: Evidence from a voluntary market reform in Brazil', Financial Management, vol. 40, no. 1, pp. 139–157.

Baba, I (2011), Corporate governance and financial reporting', International Journal of Governance, vol. 1, no. 2, pp. 367–383.

Babatunde, MA & Olaniran, (2009), The effects of internal and external mechanism on governance and performance of corporate firms in Nigeria, Corporate Ownership & Control, vol. 7, no. 2, pp. 330–340.

Barnhart, SW & Rosenstein, S (1998), Board composition, managerial ownership, and firm performance: An empirical analysis, Financial Review, vol. 33, no. 4, pp. 1–16.

Basel committee on banking supervision. (2005). Enhancing corporate governance for banking organization. Basel.

Basel committee on banking supervision. (2006). Enhancing Corporate governance for Banking organization. Basel.

Bebchuk, L, Cohen, A & Ferrell, A (2009). What matters in corporate governance? Review of Financial Studies, vol. 22, no. 2, pp. 783–827.

Berle, A. A. & Means, G. C. (1932). The Modern Corporation and Private Property, New York: Commerce Clearing House.

Bhagat, S & Bolton, B (2008). Corporate governance and firm performance', Journal of corporate Finance, vol. 14, no. 3, pp. 257–273.

Bohren and Odegaard (2001). Factors influencing voluntary Corporate disclosure by Kenyan Companies.Corporate Governance: An International Review, 14(2), 107-125

Bozec, Y & Bozec, R (2007). Ownership concentration and corporate governance practice: substitution expropriation effects, Canadian Journal of Administrative Science, no. 24,pp.182–195

Brown, L & Caylor, M (2004). 'Corporate governance and firm performance', Available at SSRN: http://dx.doi.org/10.2139/ssrn.586423.

Business Environment Group. (1998). The Business Environment and Corporate Governance; Strengthening Incentives for Private Sector Performance.

Cadbury, Sir Adrian. (2003) Corporate Governance and Chairmanship- A Personal View. Oxford: Oxford University Press. Page 1-5

Cadbury, A (1992), Report on the Committee on the Financial Aspects of Corporate Governance, Gee, London.

Chen, J. (2011). 'oward a More Coherent Understanding of the Organization–Society Relationship: A Theoretical Consideration for Social and Environmental Accounting Research, Journal of business ethics, Vol. 97, No. 4, Pp.651-665

Collin Fisher (2007), Researching and Writing a Dissertation: A Guide Book for Business Students, 2nd Edition (Pearson Education Limited).

Conyon, M. and He, L. (2011). Executive Compensation and Corporate Governance in China' Journal of Corporate Finance, Vol. 17, No. 4, Pp.1158-1175.

Cooper, D.R. and P.S. Schindler (2003). Business Research Methods, 8th Edition (Tata McGraw-Hill Publishing Company Limited. New Delhi.

Cooper, DR, Schindler, PS & Sun, J (2006), Business research methods, 9th edn, McGraw-Hill Irwin.

Cornett, Gou, Akhter, (2006). Impact of Corporate governance and firm financial performance. journal of journal of Corporate Finance, Vol. 11, No. 2, Pp.1158-1075.

Commercial Code of Ethiopia. (1960), Addis Ababa.

Davis, J, Schoorman, D & Donaldson, L (1997), Toward a stewardship theory of management Academy of Management Review, vol. 22, no. 1.

Dallas, G (2004), Governance and Risk: An Analytical Handbook for Investors, Managers, Directors, & Stakeholders, McGraw-Hill Inc.,U.S.

David Wanyonyi Wanyama, Tobias Olweny (2013). Effects of Corporate Governance on Financial Performance of Listed Insurance Firms in Kenya. Public Policy and Administration Research ISSN 2224-5731(Paper) ISSN 2225-0972(Online) Vol.3, No.4,

Dr. Waseem "mohammad yahya"Al- Haddad, Dr. Saleh Taher Alzurqan, Dr. Fares Jamil Al_Sufy(2011).The Effect of Corporate Governance on the Performance of Jordanian Industrial Companies: An empirical study on Amman Stock Exchange. International Journal of Humanities and Social Science Vol. 1 No. 4.

Fama, E. and Jensen, M. (1983). Separation of Ownership and Control, Journal of Law and Economics, Vol. 26, No. 2, Pp.301-325.

Fan, DK, Lau, C-M & Wu, S (2002), Corporate governance mechanisms, in The management of enterprises in the People's Republic of China, eds AS Tsui & C-M Lau, Springer, pp. 211–239.

Filatotchev, I. and Boyd, B. (2009). Taking Stock of Corporate Governance Research while Looking to the Future, Corporate Governance: An International Review, Vol. 17, No. 3, Pp.257-265.

Ghabayen, MA (2012). Board characteristics and firm performance: Case of Saudi Arabia, International Journal of Accounting and Financial Reporting, vol. 2, no. 2, pp. 168–200.

Haniffa, R & Hudaib, M (2006). Corporate governance structure and performance of Malaysian listed companies, Journal of Business Finance & Accounting, vol. 33, no. 7-8, pp. 1034–1062.

Haniffa, RM & Cooke, TE (2002). Culture, corporate governance and disclosure in Malaysian corporations, Abacus, vol. 38, no. 3, pp. 317–349.

Hussein A. Hassan Al- Tamimi, (2012). The effects of corporate governance on performance and financial distress. Journal of Financial Regulation and Compliance, volume 20 issue 2.

International Fund for Agricultural Development Executive board (IFAD) – EB 99/67/INF.4 sixty-seventh session Rome, 8-9 September 1999.

Jonathan R. Macey and Maureen O'Hara (2003). The Corporate Governance of Banks FRBNY Economic Policy Review, Cornell University p.no 91-103

Jensen, M. C. & Meckling, W. H. (1976). Theory of the Firm: Managerial Behaviour, Agency Cost, and Ownership Structure, Journal of financial Economics. 3: 305-360.

Jeswald W. Salacuse (2004). Corporate Governance in the New Century, 25 No.3, The company Lawyer, p.69.

Jonathan R. Macey and Maureen O'Hara (2003). "The Corporate Governance of Banks" FRBNY Economic Policy Review

Kiel, G & Nicholson, G (2003), 'Board composition and corporate performance: how the Australian experience informs contrasting theories of corporate governance', An International Review, vol. 11, no. 3, pp. 185-205.

Khaled Abdelkader Muftah Otman (2014) Corporate Governance and Firm Performance in Listed Companies in the United Arab Emirates

Larcker, D., Richardson, S., & Tuna, I. (2004). How important is corporate governance? Working Paper, University of Pennsylvania.

Lawal, B (2012). Board dynamics and corporate performance: Review of literature, and empirical challenges', International Journal of Economics and Finance, vol. 4, no. 1, pp. 22-35.

Kothari, C. R. (2004). Research Methods: Methods & Techniques. New Delhi. AGE International.

Mugenda, O. M., & Mugenda, A. G. (2003). Research Methods: Quantitative and Qualitative Approaches.Nairobi: ACTS Press

Mayes Eatramol RT (2001), Corporate governance and the quality of financial disclosures, International Business & Economics Research Journal (IBER), vol. 9, no. 6, pp. 103-110.

Ngechu, M. (2004). Understanding the research process and methods: An introduction to Research Methods, Nairobi, ACTS Press.

Najeeb Haider1, Nabila Khan, Nadeem Iqba (2015). Impact of corporate Governance on Firm Financial Performance in Islamic Financial Institution. International Letters of Social and Humanistic Sciences Vol. 51 pp 106-110.

Olani Bekele Sakilu, Berhanu Getinet Kibret (2015). Determinants of The Financial Performances Of Commercial Banks In Ethiopia: From Internal Corporate Governance Practices Perspective. Journal of Eastern European and Central Asian Research Vol 2, No 1

Price, R, Román, FJ & Rountree, B (2011). The impact of governance reform on performance and transparency, Journal of Financial Economics, vol. 99, no. 1, pp. 76–96.

Raheja, CG (2005). Determinants of board size and composition: a theory of corporate boards, Journal of Financial and Quantitative Analysis, vol. 40, no. 2, pp. 283–306.

Saunders et al (2009), Research Methods for Business Students, 5th Ed. (Prentice Hall).

Shanta Kar, Mithun sarker (2014). Corporate Governance Practices in Private Commercial Banks-A Study on Khulna City. International Journal of Economic Behavior and Organization. Vol. 2, No. 3, pp. 37-48. doi: 10.11648/j.ijebo.20140203.12

Smith, M (2011), Research methods in accounting, 2th edn, Sage, London.

Solomon, J. (2010). Corporate Governance and Accountability, 2nd Edition, Hoboken, NJ, Wiley, Chichester, UK. (p.15)

Stigliano, Adria L. (2011). Sarbanes-Oxley and Corporate Greed. Honors Scholar Theses. Paper 207

Sunday K. (2008). Corporate governance and firm performance: The Case of Nigerian Listed firms. European Journal of Economics, Finance and Administrative Sciences, Issue 14.

Tricker, B. (2000). Corporate governance: the subject whose time has come. Corporate Governance: An International Review, 8(4), 289-296.

Weimer, J & Pape, J (1999). Taxonomy of Systems of Corporate Governance, Corporate Governance: An International Review, vol. 7, no. 2, pp. 152–166.

Wilson, SM & Casu Hirsch, R & Girardon e, & Molyneux (2010). The link between corporate governance and corruption in New Zealand, New Zealand Universities Law Review, vol. 24, no. 1, p. 42.

Yung, CM (2009). The Relationship between corporate governance and bank performance in Hong Kong. Master Dissertation paper, Auckland University of Technology, China.

Zahra, SA & Pearce, JA (1989), Boards of directors and corporate financial performance: A review and integrative model. Journal of Management, vol. 15, no. 2, pp. 291–334.

Zigmund et al (2009), Business Research Methods, 8th Ed. (South-Western College Pub.).

Appendix 1

St. Mary's University

School of Post Graduate Studies

MBA Program

Questionnaire for Final Research Paper

Dear Respondent,

This study will assess "The Effect of Corporate Governance on Performance of The Firm, The Case of Construction and Business Bank S.C". The aim of this research is to investigate and explore the insight concerning internal corporate governance mechanisms and its effect on firm performance from a theoretical and practical perspective. The information gathered will be analyzed and prepare in the form of research paper. Respondents are humbly requested to provide information honestly. The purpose of this questionnaire is purely academic, and hence will result in no negative consequences in your present status. Responses/information given will be used solely for this research paper. I would like to express my heartfelt appreciation in advance for the Volunteer employees who are attempting to answer these questions.

Kind regards.

PART I: General Information Concerning the Respondents

The following questions concern about your personal information. Please place a tick in the appropriate box in each of these questions.

1. Your sex, ☐ Male ☐ Female
2. Your marital status, ☐ Married ☐ Single Other______________
3. Your age group ☐ 30 years or less ☐ 31–40 years ☐ 41–50 years ☐ 51–60 years ☐ More than 60 years
4. Highest level of education qualification

PhD	Master	Bachelor	Diploma	Other, please state

5. Your current position______________________________.
6. Your work experience

Less than 5 yr's	5–10 years	11–15	16-20	More than 20

Part II - Questions concerning concept of corporate governance

Please put a tick **(√)** sign to appropriate space of particular score, which is suitable to your agreement about the following statements.

1. Questions concerning corporate governance system of the bank

The following is a list of items relating to the governance practice of the bank. Please state the extent to which you agree/disagree with the following items as they exist in your company.

Rank 1= **strongly disagree, 2= Disagree, 3= Uncertain, 4= Agree and 5= strongly agree**

1.1. Developing a culture of good governance throughout the bank

statements	1	2	3	4	5
The bank establishes internal controls and procedures to govern the work and behavior of all its departments.					
The bank has a Code of Business Ethics which all employees are required to sign when they join the bank.					
The board creates a "Corporate Governance Committee," whose mandate includes monitoring whether the bank is fulfilling its commitments to good governance.					
The bank have a formal "Compliance Department" with a mission to ensure that employees understand and implement the bank's internal procedures and play their part in discharging the bank's external obligations					
The bank has an on-going program to raise employee awareness of corporate governance issues and the role which every employee can play in strengthening governance within the bank					

1.2. The role of stakeholders in the development of the bank corporate governance.

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

1.3. Disclosure and transparency

Statements	1	2	3	4	5
The financial and operating results of the company are timely disclosed.					
Channels for the dissemination of information on a timely basis to relevant users are provided.					
Information is prepared and disclosed in accordance with International Accounting Standards.					
An annual audit of the company is conducted by an independent auditor.					
Issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed.					
The bank's annual reports explain the incentive structure and remuneration practices for senior management, as well as the actual amounts paid to directors.					
The bank's annual report includes a section explaining its risk exposures and its strategy for managing risk.					
The bank publishes an account of its business objectives and its organizational and governance structure.					
The bank's annual report contains a short report on the activities of the board committees.					

1.4. Obstacles that affect corporate governance of the bank.

Statements	1	2	3	4	5
The occurrence of Weak legal controls and law enforcement within the industry.					
Absence of legal and regulatory systems that govern companies' activities.					
The costs of practicing good corporate governance outweigh the benefits.					
Poor relationship between executive's management, process directors, managers and employees of the company.					
Good relationship between the company and the external auditors.					

2. **Board issues:-**The following is a list of items relating to the board concern. Please state the extent to which you agree/disagree with the following items as they exist in your company

2.1. Board activity intensity:

Statements	1	2	3	4	5
Effective board meetings provide useful information in a timely manner which is critical for any board's effectiveness.					
Board meeting time is an important resource for improving the effectiveness of a corporate board.					
Boards that meet more frequently tend to generate higher financial performance.					
Increasing the level of board activity through board meetings lead to good firm					

performance.					

2.2. The role and responsibility of board directors:

Statements	1	2	3	4	5
Board members act in the best interests of the company and the owners.					
The board takes stakeholders' interests into account.					
The board monitors the effectiveness of the company's governance practices.					
The board controls the operations of the firm and the activities of the CEO.					
The board monitors and manages potential conflicts of interest of managements.					
The board supervises the process of disclosure and communication.					
The board has approved a strategic plan for the company.					
Board members are able to devote sufficient time to their responsibilities.					
The Board maintains a direct communications channel with internal and external auditors.					

2.3. Efficiency and effectiveness of the board

Statements	1	2	3	4	5
The board members are educationally qualified and very well experienced					
The bank has a formal orientation program for new board members, and does it organize formal training sessions for existing board members					
The board carries out annual evaluation of itself, its committees and its members					
All members of the board have sufficient information and time that enables them to give strategic guidance of the bank					
the board has adequate knowledge of the bank and the board functions					

3. Questions regarding management supervision:

Statements	1	2	3	4	5
The bank management submits its annual financial records to an external audit.					
The principle of transparency is observed by conveying all information to stakeholders, particularly on associated operations and conflicts of interest.					
Systems have been set up for the resolution of conflicts of interest.					
The code is revised regularly and contains recommendations and suggestions.					
The management of the bank motivates employees to perform their duties at their highest capabilities.					
The management of the bank provides alert response to every issue.					
The management of the bank develops individual values, institutional values and behavioral expectations to support the implementation of the goals, strategies and plans that are established for appropriate processes.					
The management of the bank regularly observes the implementation of policies and procedures and takes appropriate actions when employees break rules.					

The management of the bank develops clear and flexible career paths and focus on career development and retention.					
It is clear when, how and by whom decisions are to be made within appropriate processes at various levels in the organization.					
Key executives of the bank disclose material interests in any transaction or matter directly affecting the company.					

4. Questions regarding committees of the board

4.1. Audit committee of the board.

Statements	1	2	3	4	5
The audit committee monitors the integrity of financial statements.					
The audit committee reviews the work plan of the external auditors and the internal auditors, and reviews the results of their work.					
Audit committee consists solely of independent outside directors.					
Audit committee meets at least once every quarter of the year					
There is a Regulation on the Audit Committee approved by the Board					

Thank you once again for your co-operation in completing this questionnaire. Your efforts are deeply appreciated. If you have any comments, please state them in the space provided below.

Thank you very much for your interest!

Appendix 2

St. Mary's University

School of Post Graduate Studies

Interview questions for Research Paper

These interview questions are prepared to gather information about the application of corporate governance. Your cooperation is highly desirable and information provided will be kept confidential.

1. What is your view regarding the corporate governance structure of the bank?
2. How do you see the association between the board, the senior management, process directors and the line managers of the bank?
3. Do you think the board committee's and the senior management of the bank are fulfilling their roles and responsibilities effectively?
4. In your view what the possible obstacles for the implementation of best corporate governance within the bank?
5. What is your comment as a way out for such obstacles to improve the corporate governance and performance of the bank?

DECLARATION

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

Name: Abebe Tilahun ____________________ ____________________

Signature Date

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor	Signature
St. Mary's University, Addis Ababa	December, 2015