ST. MARY'S UNIVERSITY SCHOOL OF
GRADUATE STUDIES

AN ASSESSMENT OF CORPORATE GOVERNANCE PRACTICE BY BOARD OF DIRECTORS AND COMPANY PERFORMANCES AT NIB INTENRNATIONAL BANK, ADDIS ABABA HEAD OFFICE

BY
MIERAF TSEGAYE ASSEFFA

May 2017
Addis Ababa, Ethiopia

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APPROVED BY BOARD OF EXAMINORS:

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ADVISOR	SIGNATURE

DATE..........................

DECLARATION

I, Mieraf Tsegaye Asseffa, have carried out independently a research work on the topic entitled "An assessment of corporate governance practice (boards of director's composition and performance on Nib international bank) in partial fulfillment of the requirement for the Masters of Business Administration with the guidance and support of the research advisor Goitom Abraham (Assistant Professor). This study is my own work that has not been submitted for any degree or diploma program in this or any other institutions.

....,

Name Signature

St. mary university college,
Addis Ababa
May 26, 2017

STATEMENT OF CERTFICATION

This is to certify that Mieraf Tsegaye Asseffa has carried out her research work on the topic entitled "An assessment of corporate governance practice: boards of directors composition and performance on Nib international bank" under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of Masters of Business Administration.

Advisor: Goitom Abraham (Assistant Professor)

Signature……………………………..

Date ………………………………….

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I would like to start my acknowledgments in gratitude to GOD for helping on me to complete this thesis successfully. I would like to express my sincere thanks to my Father for his support and encouragement to achieve my career in confidence; I would like thank my advisor Assistant Professor Goitom Abraham for his valuable feedback, expert guidance and constant support through all stages of my study. I express my deepest gratitude also for the members of Boards of directors and management groups of Nib international bank Share Company, for providing me with the required information needed to conduct this study.

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Mieraf Tsegaye

Abbreviation and Acronyms

BOD - Board of Directors

CEO - Chief Executive officer

NBE - National Bank of Ethiopia

NED - Non Executive Directors

NIM - Net Interest margin

OECD - Organization for Economic Cooperation and Development

ROE - Return on Equity

ROA - Return on Asset

NIB – Nib International Bank

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ABSTRACT

Corporate governance is a rule, procedure and process by which organizations are controlled and directed with the best interest of stakeholders. It is considered as corner stone of the modern market oriented economy. Corporate governance is concerned with functioning of board of directors that are appointed by shareholders to oversee the activities of their company. The researcher is thus highly interested to learn how corporate governance is practiced in financial institutions, especially banks that have considerable impact on socio-economic development of a country taking data and information of a case bank. Assessing the practice on ground by board of directors at Nib- International Bank through the lens of best practices in developed economies is the area of concern. The research work was designed to examine, review and describe the corporate governance practices of the case bank. Apart from intensive literature review on the subject, legal regulations, directives and bylaws the board of directors has to comply with, and its structural set up were thoroughly gone through by the researcher. The study had also incorporated corporate governance mechanisms like board size, board gender diversity, board members educational qualification, board members business management and industry specific experience, and audit committee size. The study controls the effect of size, leverage and growth of banks. Interview results obtained from purposely chosen board and top management members were made part of data and information used for analysis. Financial performance indicators like return on assets, return on equity, net interest margin were derived from the financial statements of the bank. The findings confirm that the board of directors is competent enough to maintain sustainability of the bank and fully comply with rules, regulations and directives of the country. Limitations observed are attributable to external factors that are beyond the control of the board of directors. Comments and suggestions the researcher believes could be done internally are forwarded. As poor corporate governance practice is one of the major causes of collapse and demise of business firms' further research works by scholars in management, economics, business administration, finance etc, is inevitable. This research is assumed to add value to research work on corporate governance adoption and practice in developing economy like that of ours.

Key words: Corporate Governance, Board of Directors, Performance

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Generally, business firms come into existence to achieve their objectives of sustainability and success in their operation. Key components to a successful business are having the right strategy, operations in place to execute the strategy and best and capable people to execute those operations. In share companies where owners are dispersed, it is hardly possible without competent board of directors and corporate governance.

In the case of our country the Economic Reform made by the existing government encouraged investors to form private companies engaged in different lines of businesses. My concern is about business organization formed by sale of shares to the wider public especially private banks that have intermediary role among the investors and users of funds for various purposes. Failures of banks performance have negative impact on the overall socio –economic development of a country.

Private banks in Ethiopia are share companies whose owners are shareholders. The shareholders are many in number and are usually unable to closely monitor, manage performances of their banks. A body of significant role to bridge the gap between owners and management is of paramount. Presumably, the Board of Directors is the body to fill the gap. These directors are appointed by the shareholders of the company, who set overall policy for the company, and the Board appoints one or more of them as managing directors/whole time directors/ executive directors to be approved by the shareholders. They are a link between the people who provide capital (the shareholders) and the people who use that capital to create value (the managers). The Board's primary role is to monitor management on behalf of the Shareholders.

According to Cocris & Ungureanu (2007), banks are special and their corporate governance systems are of major importance because banks have a critical position in the development of economies due to their major role in running the financial system. There is a significant public dimension to the banking firms; bank managers function in the light of two distinct sets of interests: one is the private interest, internal to the firm, and the other is the public interest, external to the firm.

It is believed that sound corporate governance system of bank increases the efficiency of firm and also enhances the credibility of the banking industry, which has positive economic effects and countries that adopt regulation on forcing the disclosure of accurate, comparable information about banks tend to have better developed banks.

Corporate Governance is concerned with the functioning of Board of Directors (BODs) –its structure, styles, process, their relationships and roles, activities etc. Boards of Directors as a rule of corporate governance become important for smooth functioning of firms and improve the performance. Boards are expected to perform different functions, for example, monitoring of management to mitigate agency costs, hiring and firing of management, provide and give access to resources, grooming CEO and providing strategic direction for the firm to enhance the performance. Therefore, Boards of Directors (BODs) is considered as a crucial part of the Corporate Governance. Board of Directors plays an important role in the company.

This study will review literatures on board of directors of private banks in Ethiopia and with specific reference on issues related to the separation of supervision and management responsibilities, and on the composition, independence and remuneration of Board of Directors in the case company to examine the relation of corporate governance to performance.

This paper addressed the current corporate governance practice of Nib international bank Share Company in Ethiopia in comparison with international best practices of OECD principles, Basel committee guidelines on banking supervision and local commercial laws and National bank of Ethiopia directives.

1.2 BACKGROUND OF THE CASE COMPANY

Nib international Bank share company was established by 717 shareholders on 26 may 1999 under licence no.LLB/007/99 in accordance with the commercial code of Ethiopia and the proclamation of licensing and supervision of banking business proclamation no.84/1994 with the paid up capital of birr 27.6 million and authorised capital 150 million. Since establishment the bank made remarkable growth. The bank has spared 166 branches across the country. The bank has implemented mobile and internet banking through which its issues. The bank carried out its operations according to the directives of National Bank of Ethiopia; it has corporate governance system and the bank supervised by boards of directors.

The basic tenet of the bank corporate governance refers to the flow of delegation of authority that stems from the banks general meeting of shareholders down to the level of day to day decision making organs. The administrative organs of NIB includes General meeting of shareholders, the board of directors, the president and other management members

The organisational structure, through which NIB aims to achieving its corporate objectives starting from the top echelon down to the lower bodies, depicts the relationships and flow of responsibilities, authorities and formal lines of communication throughout the system.

Figure presented below the approved organisational chart of the bank.

Company's Organisational structure

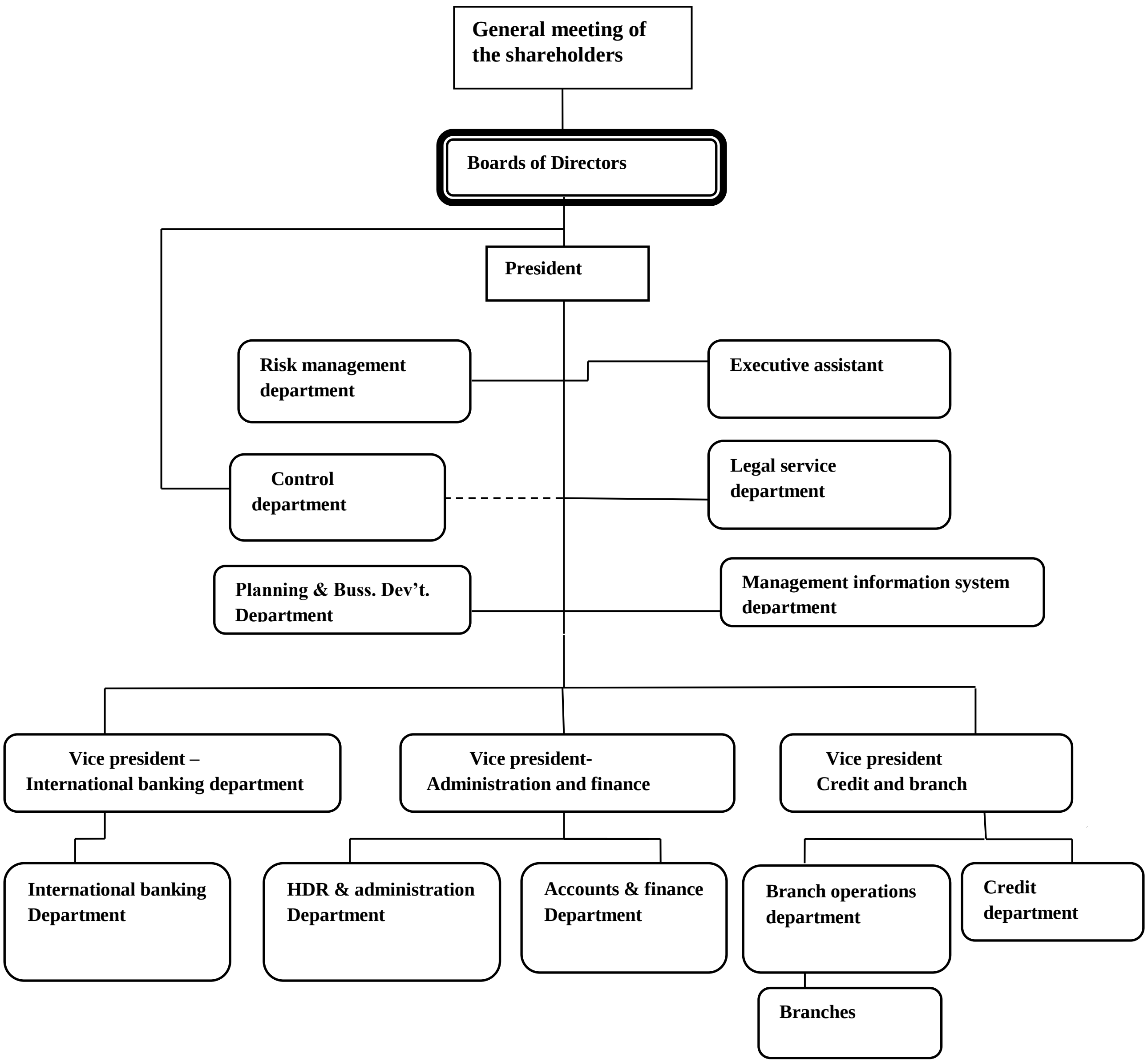

Fig.1 revised organisational structure of NIB international bank

Regarding governance the board members are appointed by the general meeting of shareholders. They also appointed by the board pursuant to provisions stated in the "bylaws of the boards of directors" under article 2(4). The board's primary responsibility is to provide effective governance over the bank's affairs for the benefits of shareholders and to the best interests of stakeholders. The board is responsible for drawing the bank's objectives, strategy and policy towards achieving sustainable results; and thus bears the overall accountability for the sound management of the bank. The bank shall be managed by a board consisting of twelve (12) directors elected by the general meeting of shareholders to serve the period of three years. The board is accountable to the general assembly of shareholders. It's structured having chair person and vice chairperson.

1.2 STATMENT OF THE PROBLEM

Nowadays the importance of corporate governance is highly emphasised and considered as corner stone in modern market oriented economy. Failure and demises of business firms including big ones that occurred in the few past decades attributed to poor or dysfunction of corporate governance practices. Corporate failure is a serious blow to business organizations destabilizing the economic system in various ways: increasing unemployment, increasing poverty, depriving creditors of their legitimate earnings, intensifying the crime rate, and reduction in volume of tax earnings. The subject is thus of significant importance to have attention of every stakeholder.

As a result of deregulations after the fall of command economy, private organizations started to pop up in some cities and towns of Ethiopia. Domestic investors pulled up their money together and formed banks that have critical positions in the economic development of a country due to their role of running the financial system Adoption of good corporate governance is vital for their sustainability and growth.

Empirical studies conducted on corporate governance of banks in Ethiopia so far highly concentrated on profitability, risk management, correlation of corporate governance mechanisms with banks performances, legal and social issues of business landscapes of the private banks in Ethiopia. As far as the researchers knowledge is concerned assessment of bank performances and corporate governance practices in light of benchmarks for good corporate governance is an unnoticed area of research. The purpose of this study is to partially fill this gap through assessment of corporate governance practices in a case bank, Nib International Bank Share Company.

This study is assumed to contribute to the existing body of knowledge by giving clue where private banks' corporate governance practices land from generally accepted corporate governance principles perspective.

1.4 RESEARCH QUESTIONS

The board of directors is accountable for acting in the best interests of shareholders and managers. Accordingly, an effective and independent board is more likely to monitor the top management to align the interests of the shareholders and managers. Thus, if interests are aligned, this will reduce the conflict between managers and the shareholders leading to better firm performance. To end up with assessment of the use of the agency theory in the case bank, the research is opting to get adequate and reliable data that satisfy in answering the points hereunder.

1. Does the composition of the Board of Directors in Nib International Bank accord to universally accepted principles (OECD), Basel Committee on Banking supervision and directives of the National Bank of Ethiopia?

2. What are the trends of operational and financial performances of the case bank during the time frame (2012 – 2016) covered by the case study?

3. What impact does the role of board of directors has to the bank's performances?

1.5 OBJECTIVE OF THE RESEARCH

General objective of the study

The general objective of this study is to assess the level of corporate governance practices board of directors composition from good corporate governance perspective and investigate its contribution on the bank's financial performance by using Nib International Bank Share Company's the last five years results as basis of the analysis.

Specifically, the objective of the study included the following

i. Critically analyse the composition of the Board of Directors with OECD standards, Basel Committee on banking supervision and directives of the National Bank of Ethiopia.

ii. To analyse the Operational and Financial performance trends of the Case Bank during the time frame covered by the case study.

iii. To infer the role played by the Board of Directors to attain the bank's registered performances.

1.6 SCOPE /DELIMITATION OF THE STUDY

The study covers the roles and responsibilities of the board of directors in light of corporate governance adoption and practices. The directors gender diversity, educational background and work experiences were assessed to evaluate their competence to the tasks they are nominated to discharge. Operational and Financial performances resulted as a consequence of their control, close supervision of the management and company's resources utilization was reviewed. Developments in the banks service capacity growth and profitability during the period 2012 to 2016 were noted and used for interpretation.

Though the degree of contribution varies depending on the scope of work each employee has all the banks community have their shares. This research however, is limited to the assessment of board of director's functions and contribution. The data and information gathered and analysed do not include those of periods prior to 2012 and after 2016.

The board of directors of Nib International bank has its office in the head quarter in Addis Ababa. Data and information pertaining to the directors are kept here. The head office is thus, the main source of data and information to look for regarding the directors.

1.7 SIGNIFICANCE OF THE STUDY

The study might help us to enhance our understanding of corporate governance in terms of agency theory in the developing and growing industrial and service companies in Ethiopia.

- The study might help commercial banking firms and also share companies by identifying relevant corporate governance mechanisms and how these governance mechanisms affect on the firms performance.

- This study contributes to the existing literature by providing evidence on the relation between corporate governance mechanisms and banks' financial performance in one company.

- Finally, the findings of the study also will provide a window into the prevailing situation of corporate governance in Ethiopia which is of interest to local and international investors, managers, academic researchers considering the role of corporate governance.

1.8 ORGANISATION OF THE STUDY

The study consists of five chapters. The first chapter introduces what the study is about, the problem to be examined, the objectives, research question, significance, delimitation of the study. Chapter two provides a highlight of pertinent theoretical and empirical reviews of the literature and conceptual framework relevant to the study. The third chapter provides description about the methodology used in this study. The fourth chapter presents data analysis and interpretation. The study ends with the conclusion and recommendations chapter five that brings to light the major findings of the study and possible recommendations in a manner that relates to the topic, namely an assessment of corporate governance practices, Boards of Directors composition and performance of Nib bank.

This research was confined to assess the composition of Boards of Directors on financial performances of Nib International Bank Share Company during the fiscal years 2012 through 2016.

1.9 DEFINITION OF KEY WORDS

Bank or banking organisation: bank holding companies or other companies considered by banking supervisors to be the parent of a banking group under applicable national laws as determined to be appropriate by the entity's national supervisor.

Boards of directors: the group structure that supervises management .the structure of board differs among countries.

Corporate governance: a set of relationship between a company's management, its boards, its shareholders and other stakeholders which provides the structure through which the objective of the company are set and the means to attaining objectives and monitoring performance. It helps define the way authority is allocated and how corporate decisions are made.

Duty of loyalty: the duty of board members to act in good faith in the interest of the company .the duty of loyalty should prevent individual board members from acting their own interest, or the interest of another individual or group, at the expense of the company and shareholders.

Executive director: a member of the board (example –director) who also has management responsibilities within the bank.

Independent director: a member of board who does not have any management responsibilities with the bank and is not under any undue influence.

Non -executive director: a member of board who does not have management responsibilities within the bank.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Under this chapter the theoretical and empirical evidences focusing on corporate governance and roles board of directors play to serve shareholders and other stakeholders of banks are briefly highlighted. Accordingly, the first section, 2.1 presents evolution of Corporate Governance in general. The second section 2.2 present definition of the term by different scholars. The third section 2.3 presents theoretical perspectives of Corporate Governance. The fourth section 2.4 enumerates the major principles of Corporate Governance. The fifth section 2.5. The sixth section 2.6 states organization factors affecting firm's performances. Finally, in section 2.7 Overview of Corporate Governance in the Ethiopian Banking System presented. These important issues are supposed to serve as conventional yard sticks for my assessment of the practice of corporate governance in the case bank.

2.1 Evolution of Corporate Governance

The story of corporate governance begins with the foundation of the first listed company in 1612. Adam Smith is the one who understood the issues corporate governance in 1776. He in fact did not use the phrase corporate governance Steier, (2005). The first recognized academic work on the issue of corporate governance was Means, (1932), followed by Coase, (1937) as they recognized ownership/performance issues arising from the growing separation of power between executive management of major public companies and their increasingly remote and diverse shareholders.

The term "Corporate Governance" first surfaced in the 1970s in the USA to describe the role, functions and responsibilities of the board and management but did not appear in print until 1983 (Earl, 1983). A lack of transparency meant that shareholders had no idea what managers were doing. In fact, it turned out that many of them were using company funds to run their own private businesses buying spices and selling them privately. The result was the first ideas on how to exercise more control through additional disclosure and the appointment of supervisory directors, who had better access to the detail of what the company was actually doing and who could stop transactions going forward.

Corporate governance and principal-agent problems were further highlighted by (Farrar, 1999) who traces the development of corporate governance with the appearance of managerial capitalism and the need to raise capital from the public. Farrar's view is that in the absence of a countervailing power, management has a tendency to pursue own self-interest at the expense of the corporation. This situation justifies the need of monitoring the management so as to prevent it from opportunistic behaviour. The corporate governance issues were controlled by both fiduciary restraints developed in the law and supplemented by legislation so that modern directors' duties are an amalgam of law, equity and statute (Brown, 2004). The market for corporate control rewards good performance. A company with poor practice of corporate governance confronts under-performance that could be manifested by fall in share prices or business failure.

2.2 Definition of Corporate Governance

There are different definitions for corporate governance. The most widely used definition is the one given by OECD, which states that

"Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means through which those objectives and monitoring performance are attained" (OECD, 1999, p.76).

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

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

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

The International Chamber of Commerce also provides a corporate-specific definition of corporate governance: "Corporate governance is the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives. And the corporation itself conforms to the law and regulation" (ICCWBO,)

2.3 Theoretical perspectives of Corporate Governance

Various corporate governance theories have been developed concerning the nature and significance of corporate governance, and they include, among other things, agency theory, stakeholder theory, and stewardship theory that are briefly described as

Agency Theory: Agency theory is widely used as a means of explaining various corporate governance issues. The essence of the theory is based on the existence of separation of ownership and control in large corporations. In such corporations, the managers (agents) are hired to work and make decision on behalf of the owners (principals) in order to maximize return to the shareholders. However, 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. Ashenafi, kailfa and yodit (2013 Journal of Finance and Accounts vol 1 , pp 19-26.)

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. Nevertheless, Davis, Schoorman & 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; and therefore, exclusive reliance on agency theory is undesirable, because the theory ignores the complexities of organizational life.

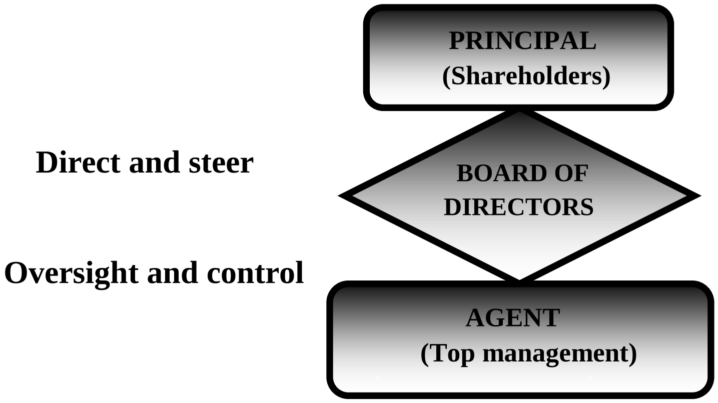

Fig.2 agency theory diagram

Source: http://managementhelp.org boards .

Stewardship theory*:* The stewardship theory, on the other hand, originates from sociology and psychology. The stewardship theory maintains 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, Schoorman & Donaldson, (1997) as opposed to the agency theory which claims that conflict of interest between managers and Shareholders are inevitable unless appropriate structures of control are put in place to align the interests of managers and shareholders (Jensen & Meckling). The stewardship perspective suggests that stewards (managers) are satisfied and motivated when organizational success is attained even at the expense of the stewards' personal goals .Abdullah & Valentine, (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 & Davis, 1991)

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 & Valentine, 2009). Unlike the agency theory, whereby managers are predominantly responsible for satisfying the interests of shareholders, 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 & Valentine, 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, Haarman and Schmid, 2006). Consequently, according to Macey & 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.

2.4 **Principles of Corporate Governance**

2.4.1 Basel Committee on Banking Supervision- Principles

The Basel Committee on Banking Supervision (The Basel Committee) published guidance in 1999 to assist banking supervisors in promoting the adoption of sound corporate governance practices by banking organizations in their countries, and revised it in 2006, and prepared a consulting document on Enhancing Corporate governance for Banking Organizations. The following are the principles put forward in that document;

Principle 1. Establishing strategic objectives and a set of corporate values that are communicated throughout the banking organizations.

The board should establish the strategic objectives and ethical standards that will direct the ongoing activities of the bank, taking into account the interests of stakeholders. The board should take the lead in establishing the "tone at the top" and approving ethical standards and corporate values for itself, senior management and other employees. It is especially important that the standards address corruption (including bribery), self-dealing and other unethical or illegal behavior in banks' internal and external activities.

Principle 2. Setting and enforcing clear lines of responsibility and accountability throughout the organization.

Effective BODs clearly define the authorities and key responsibilities for themselves, as well as for senior management. They also recognize that unspecified line of accountability or confusing, multiple lines of responsibility may aggravate a problem through slow or diluted response. The BODs is responsible for overseeing management's actions and consistency with board polices as part of the checks and balances embodies in sound corporate governance.

Principle 3.Ensuring that board members are qualified for their positions have a clear understanding of their role in corporate governance and are able to exercise sound independent judgment about the affairs of the bank.

The board of directors is ultimately responsible for the operations and financial soundness of the bank. BODs and their individual members add strength to the corporate governance of a bank when they understand their oversight role and their fiduciary "duty of loyalty" and "duty of care", avoid conflicts of interest, are able to commit sufficient time and energy to fulfilling their responsibilities.

Principle 4. Ensuring that there is appropriate oversight by senior management

Senior management consists of a core group of individuals (for example, the chief financial officer and division heads) responsible, under the guidance of the board of directors, for the day-to-day management of the bank such as the establishment of effective system of internal controls. These individual should have the necessary skills to manage the business under their supervision as well as have appropriate control over the key individual in these areas.

Principle 5. Effectively utilizing the work conducted by internal and external auditors, as well as other control functions, in recognition or their critical contribution to sound corporate governance.

The role of independent, competent and qualified auditors and other control functions (including the compliance and legal functions) is vital to the corporate governance process in order to achieve a number of important objectives. It is a sound practice to consider direct reporting of the internal audit function to the board of directors through and audit committee as well as direct (but not exclusive) reporting from the compliance and legal staff to the boards, It may be beneficial for independent directors to meet in the absence of bank management at least annually with the external auditor and the head of the internal audit, compliance and legal functions. This can strengthen the ability of a bank's BODs to oversee management's implementation of the board's policies and to ensure that a bank's business strategies and risk exposures are consistent with risk parameters established by the bank's board of directors.

Principle 6.Ensuring that compensation policies and practices are consistent with the bank's ethical values, objectives, strategy and control environment

The board of directors should determine or approve, where appropriate subject to prior shareholders' approval, the compensation of members of the board, senior management and other key personnel, and should ensure that such compensation is consistent with the bank's culture, control environment, and long-term objectives and strategy.

Principle 7. Conducting corporate governance in a transparent manner

Transparency is essential for sound and effective corporate governance. It is difficult for shareholders, other stakeholders and market participants to effectively monitor and properly held accountable the BODs and senior management when there is a lack to transparency. That is when stakeholders do not receive sufficient information on the structure and objectives of the bank to judge the effectiveness of the board and senior management in governing the bank. Both publicly-traded and privately-traded and privately-held banks should be required to provide full, accurate and timely discourse of material information to investors, supervisors, and as appropriate under national law, to other stakeholders.

Principle 8. Maintaining and understanding of the bank's operational structure including operating jurisdictions, or through structures, that impede transparency (i.e "know-your-structure").

Corporate governance challenges arise where bank operate through structures that lack or impair transparency. Banks may choose to operate in a particular jurisdiction or may establish complex structures e.g. special purpose vehicles or corporate trusts, often for legitimate and appropriate business purposes. Operating in such jurisdictions or through such structures may, however, pose financial, legal, and reputational risks to the banking organization, impede the ability of the board of directors and senior management to conduct appropriate business oversight; and hinder effective banking supervision.

Consequently, banks' board of directors should have in place policies and procedures to ensure that such structures or activities comply with relevant law and regulations, that the board considers appropriate.

Fig.3 Board of directors Environment

Source:https://creatively .com>diagram >examples

2.4.2 OECD Principles of Corporate Governance

The organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance were originally developed in response to a call by OECD Ministers in 1999 to develop a set of corporate governance standards and guidelines. Since then become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. The principles are intended to assists governments in their effort to evaluate and improve the legal, institutional and regulatory framework in their countries. “The OECD has identified the following corporate governance principles built on some common elements.

I. Ensuring the Basis for an Effective Corporate Governance Framework

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. The corporate governance framework should be developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and efficient markets.

II. The Rights of Shareholders and Key ownership Functions

The corporate governance framework should protect and facilitate the exercise of shareholders’ basic rights. Equity investors have certain property rights such as to sell, buy or transfer an equity share in a publicly traded company. Shareholders are also entitled to participate in the profits of the corporation, with liability limited to the amount of the investment. They should have the opportunity to participate effectively and vote in shareholders general meetings and should be informed of the rule, including voting procedures that govern the general shareholder meetings. In addition, all shareholders including institutional investors have to exercise their ownership right to influence the corporation and its management.

III. The Equitable Treatment of Shareholders.

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights. All shareholders of the same series of a class should be treated equally. Investors’ confidence that the capital they provide will be protected from misuse or misappropriation by corporate managers, board members or controlling shareholders is important factor in the capital markets. Corporate boards, managers and controlling shareholders may have the opportunity to engage activities that may advance their own interests at the expense of non-controlling shareholders like insider trading.

IV. The Role of Stakeholders in Corporate Governance

The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. It is, therefore, in the long-term interest of corporations to foster wealth-creating cooperation among stakeholders. The governance framework should **recognize** that the interests of the corporation are served by recognizing the interests of stakeholders and their contribution to the long-term success of the corporation.

V. Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. Public disclosure is considered as a minimum requirement at certain intervals preferably on an annual basis. Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure. An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects. A strong disclosure system that promotes high transparency is basic characteristic of market-based monitoring of companies and is central to shareholders; ability to exercise their ownership rights on an informed basis.

VI. The Responsibilities of the Board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. The board should fulfill certain key functions, including reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestments (if any). The board is also responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. In order for boards to effectively fulfill their responsibilities they must be able to exercise objective and independent judgment.

2.5 Organization Factors Affecting Firm's Performances

Adopting better corporate governance mechanisms such as an enhanced board and audit committee improves monitoring of management and reduces information asymmetry problems (Aldamen et al., 2011). There is a significant literature that links size, gender diversity, and other characteristics of the board of directors and audit committees to improved firm performance (Klein, 1998; Aldamen et al, 2011).

Corporate governance mechanisms have been identified as an essential tools needed in managing any corporation including banks. There are different mechanisms that reduce agency cost whereby corporate governance can be measured in an organization. In the corporate governance literature board characteristics (board size, board gender diversity and educational qualification and experience) and audit committee size were used as corporate governance mechanisms.

International organizations such as Organization for Economic Cooperation and Development (OECD) and International Corporate Governance Network (ICGN) have developed corporate governance principles which stressed on the role of boards. According to Bathula (2008), corporate governance principles focus on the importance of corporate governance for long-term economic performance and strengthening of international financial system. A strong board can play a decisive role in improving firm financial performance. The important role of boards is to act as an internal governance mechanisms and monitoring of management (Shleifer & Vishny, 1997). An effective board is likely to help the firm achieve better performance by effectively undertaking their monitoring duties (Bathula, 2008).

Board of directors is an important corporate governance mechanism (Aljifri & Moustafa, 2007). Boards of directors are the agent of the shareholders and their primary task is to monitor and control firm management on behalf of shareholders to reduce agency problem. In modern corporations boards of directors are charged with the task of monitoring the activities of top management to ensure that the managers act in the best interests of shareholders (Jensen & Meckling, 1976). From the agency theory point of view boards have play decisive role in alleviating agency problems that arising from the separation of ownership and control of firms (O'Connell & Cramer, 2010). In doing so the board of directors need to be effectively supervise the activities of top management.

The effectiveness of the board is influenced by factors such as board composition and quality, size of board, , board diversity, board committee effectiveness such as audit committee and information asymmetries ultimately this affects the board oversight performance (Uadiale, 2010). When the board is effective it is expected to drive the company towards better financial achievement (Andres & Vallelado, 2008).

When financial markets are not well developed as an efficient external control mechanism and when the shareholders are not well protected due to weak legal system and poor law enforcement the role of the board of director becomes highly significant as an internal control mechanism (Gonz´alez & Garay, 2003). Boards of director are the heart of corporate governance. However, the effectiveness of the board of directors as shareholders' monitoring mechanism can only be efficient if bounded with appropriate size, composition and sub-committee (Lawal, 2012).
The audit committee is a sub-committee of the board of directors and its primary role is to monitor and review financial statements (Yammeesri & Herath, 2010).

An audit committee has a particular role of ensuring that the interests of shareholders are properly protected in relation to financial reporting and internal control (Habbash, 2010). The use of an audit committee is an important part of the decision control system for internal monitoring by boards of directors (Fama & Jensen, 1983). Monitoring is performed by external audit and audit committees. The existence of an audit committee improves the monitoring of corporate financial reporting and internal control and it helps to promote good corporate governance in turn this improves firms' financial performance by reducing agency cost (Al – Sa'eed & Al-Mahamid, 2011). Size is vital characteristics of audit committees (Habbash, 2010).

2.5.1 Board size

According to Kiel and Nicholson (2003) board size is crucial to achieving the board effectiveness and improved firm performance. According to Lawal (2012), board size affects the quality of deliberation among members and ability of board to arrived at an optimal corporate decisions. Therefore, identifying the appropriate board size is essential because size can be detrimental to corporate governance effectiveness beyond optimal level. However, determining an ideal size of the board has being an ongoing and controversial debate in corporate governance literature (Lawal, 2012). Whether large or small board help improve firm performance it is debatable issue and researchers found mixed result about the relation between board size and firm performance.

Jensen (1993) argues that a larger board leads to less effective monitoring due to coordination and process problems inherent in large board size. Larger boards can be less participative, less cohesive, and less able to reach consensus. Coordination, communication and decision-making problems increasingly impede company performance when the number of directors increases (Yermack, 1996 as cited by Uadiale, 2010).

Al-Manaseer et al. (2012) also argues that boards with too many members lead to problems of coordination in decision making. Small board size was favored to promote critical, genuine and intellectual deliberation and involvement among members which presumably might led to effective corporate decision making, monitoring and improved performance (Lawal, 2012). In contrast Klein (2002) suggested that larger boards able to promote effective monitoring due to their ability to distribute the work load over a greater number of observers. Thus, board size can influence the financial performance of firms.

2.5.2 Board gender diversity

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

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Gender diversity in the boards is supported by different theoretical perspectives. Agency theory is mainly concerned about monitoring role of directors. Representation from diverse groups will provide a balanced board so that no individual or group of individuals can dominate the decision-making of the board (Erhardt et al., 2003). The management may be less able to manipulate a more heterogeneous board to achieve their personal interests. Gender diversity is associated with effectiveness in the oversight function of boards of directors. The oversight function may be more effective if there is gender diversity in board which allows for a broader range of opinions to be considered.

According to Erhardt et al. (2003), diversity of the Board of Directors and the subsequent conflict that is considered to commonly occur with diverse group dynamics is likely to have a positive impact on the controlling function and could be one of several tools used to minimize potential agency issues.

From stakeholders' theory, diversity also provides representation for different stakeholders of the firm for equity and fairness (Keasey et al., 1997). From resource dependency perspective, the board is a strategic resource, which provides a linkage to various external resources (Walt & Ingley, 2003). This is facilitated by board diversity.

On the other hand, Rose (2007) revealed insignificant association between number of women directors on the board and firm performance. However, many scholars now believe that an increase in board diversity leads to better boards and governance on the ground that diversity allows boards to tap on broader talent pools for the role of directors (Bathula, 2008). However, as he stated in corporate world women representation on boards is very limited.

2.5.3 Educational qualification

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

Board of directors is vested with the responsibility of ensuring that the shareholders' money is not wasted, shareholders have a serious interest in ensuring that the board is staffed with well educated and experienced directors (Gantenbein & Volonte, 2011). The human capital provided by its board of directors is vital given the corporate board is one of the mechanisms for oveseeing the firm and it can arguably provide the knowledge needed to function in the new environment. Personal profile factors of directors such as education and experience is important for board efficiency.

2.5.4 Board Business management experience

Business management experience of directors enables them to have better knowledge and understanding about business and enable to contribute effectively in the decision making process as well as in effectively monitoring the activities of management (Saat et al., 2011). Directors need to be competent and capable of understanding the business operation. Kroll, et al (2008) found that boards rich in appropriate experience are associated with superior returns. He argues that boards comprising directors with appropriate knowledge gained through experience can be not only better monitors, but also more useful advisors to top managers. According to Castanias et al. (2001) differences between firms in the human capital of boards of directors are related to differences in strategic actions and performance. However, empirical studies examining the effect of business experience of board members on firm performance is scarce.

2.5.5 Board Industry specific experience

Appointing directors with related and relevant skills and knowledge to perform task specific duties such as the firm's internal control and procedures will enhance the quality of information gathered and the solution to problems and of the views held and judgments made during the decision-making process (DeZoort, 1998 as cited by Saat, et al, 2011). Directors' specialist knowledge will be valuable to the creation of a strong and informed board (Saat et al., 2011). He claimed that experience of directors enables them to guide, steer and monitor the firm more effectively. In other words, their knowledge of the industry, its opportunities and threats and their connections to the industry participants based on their experience enables them to contribute substantively in the firm performance. However, empirical studies examining the effect of business management and industry specific experience of board members on firm performance is scarce in the literature.

2.5.6 Audit Committee Size

According to Jensen and Meckling (1976) the audit committee plays a significant role in the monitoring process carried out by the directors of the firm and auditing is used by firms to reduce agency costs. In addition to that they revealed that most essential board decisions originate at the committee level, and this includes the audit committee. Audit committees thus, represent another internal governance mechanism whose impact is to improve the quality of financial management of a company and hence its performance.

Kyereboah-Coleman (2007) reported a significant positive relation between size of the audit committee and firm performance (ROA and Tobin’s q) using the overall sample. Kyereboah-Coleman (2007) describe that size of the audit committee could be an indication of the seriousness attached to issues of transparency by the organization. However, only using Ghanaian sample the size of the audit committee showed a negative effect on performance. He explained as free-ridership and difficulty in consensus building in large groups leads to low performance. In addition, Lin et al (2006) found significant positive association between audit committee size and occurrence of earnings restatement. It was explained that a certain minimum number of audit committee members may be relevant to the quality of financial reporting.

Aldamen et al. (2011) reveals that smaller audit committees with more experience and better educational qualifications are more likely to be associated with positive firm performance.

2.6 Overview of Banking System in Ethiopia

As narrated by Habtamu Neguse Ayele (2012) in his empirical study on Ethiopian private banks profitability determinates, traditional financial system in Ethiopia has long history and paramount contribution to economic betterment and social well being of the society. Traditional institutions organized with a sense of cooperation and risk sharing has enabled Ethiopians to experience saving and financial management within its cultural context. Eqqub and Edir are some of the informal financial institutions that shaped the social bond and interaction (Gebeyaw Aychile 2008).

Modern banking in Ethiopia was introduced after the agreement that was reached in 1905 between Emperor Minilik II and Mr.Ma Gillivray, representative of the British owned National Bank of Egypt. Following the agreement, the first bank called Bank of Abysinia was inaugurated in Feb.16, 1906 by the Emperor. Within the first fifteen years of its operation, Bank of Abysinia opened branches in different areas of the country in Harar (Eastern Ethiopia), Dire Dawa, Dessie and Djibouti. By 1931 Bank of Abyssinia legally replaced by Bank of Ethiopia shortly after Emperor Haile Selassie came to power.

The new Bank, Bank of Ethiopia, was a purely Ethiopian institution, was the first indigenous bank in Africa, and established by an official decree on August 29, 1931 with capital of £750,000. In 1941, another foreign bank, Barclays Bank, came to Ethiopia with the British troops and organized banking services in Addis Ababa, until its withdrawal in 1943. Then on 15 April 1943, the State Bank of Ethiopia commenced full operation after 8 months of preparatory activities. In 1945 and 1949, the Bank was granted the sole right of issuing currency and deal in foreign currency. The Bank also functioned as the principal commercial bank in the country and engaged in all commercial banking activities. The National Bank of Ethiopia with more power and duties started its operation in January 1964. Following the incorporation as a share company on December 16, 1963 as per proclamation No.207/1955 of October 1963, Commercial Bank of Ethiopia took over the commercial banking activities of the former State Bank of Ethiopia. It started operation on January 1, 1964 with a capital of Eth. Birr 20 million. In the new

Commercial Bank of Ethiopia, in contrast with the former State Bank of Ethiopia, all employees were Ethiopians.

There were two other banks in operation namely Banco di Roma S. and Banko di Napoli S.C. that later reapplied for license according to the new proclamation each having a paid up capital of Eth. Birr 2 million. The first privately owned bank, Addis Ababa Bank Share Company, was established on Ethiopians initiative and started operation in 1964 with a capital of 2 million in association with National and Grindlay Bank, London which had 40 percent of the total share. In 1968, the original capital of the Bank rose to 5.0 million and until it ceased operation, it had 300 staff at 26 branches. There were other financial institutions operating in the country like: Imperial Savings and Home Ownership public Association, which specialized in providing loans for the construction of residential houses and to individuals under the guarantee of their savings.

Saving and Mortgage Corporation of Ethiopia whose aims and duties were to accept savings and trust deposits account and provide loans for the construction, repair and improvement of residential houses, commercial and industrial buildings and carry out all activities related to mortgage operations.

Agricultural Bank that provides loan for the agricultural and other relevant projects established in 1945. But in 1951 the Investment Bank of Ethiopia replaced it. In 1965, the name of the bank once again hanged to Ethiopian Investment Corporation Share Company and the capital rose to Eth. Birr 20 million, which was fully paid up.

Following the declaration of socialism in 1974, the government extended its control over the whole economy and nationalized all large corporations. Organizational set ups were taken in order to create stronger institutions by merging those that perform similar functions.

Accordingly, the three private owned banks, Addis Ababa Bank, Banco di Roma and Banco di Napoli Merged in 1976 to form the second largest Bank in Ethiopia called Addis Bank with a capital of Eth. birr 20 million and had a staff of 480 and 34 branches. Then Addis Bank and Commercial Bank of Ethiopia S.C were merged by proclamation No.184 of August 2, 1980 to form the sole commercial bank in the country until the establishment of private commercial banks in 1994.

The Savings and Mortgage Corporation S.C. and Imperial Saving and Home Ownership Public Association were also merged to form the Housing and Saving Bank with working capital of Birr 6.0 million and all rights, privileges, assets and liabilities were transferred by proclamation No.60, 1975 to the new bank. The financial sector that the socialist oriented government left behind constituted only three banks and each enjoying monopoly in its respective market, the following was the structure of the sector at the end of the era: the National Bank of Ethiopia (NBE), the Commercial Bank of Ethiopia, and Agricultural and Industrial Development Bank.

Following the demise of the Dergue regime in 1991 that ruled the country for 17 years under the rule of command economy, the Ethiopian People‟s Revolutionary Democratic Front declared a liberal economy system. In line with this, Monetary and Banking proclamation of 1994 established the national bank of Ethiopia as a judicial entity, separated from the government and outlined its main function. Monetary and Banking proclamation No.83/1994 and the Licensing and Supervision of Banking Business No.84/1994 laid down the legal basis for investment in the banking sector.

2.7 Basic Features of Bank Corporate Governance in Ethiopia

According to Ayele, A.G. (2013) 'Revisiting the Ethiopian Bank Corporate Governance system: A Glimpse of the Operation of Private Bans', 2013(1) Law, Social Justice & Global Development Journal (LGD).

The overall climate of corporate governance in the Ethiopian banking sector was critically assessed through the lens of principles of good corporate governance. She highlighted that the issue of corporate governance in the banking sector stands out as one of the problematic areas. The blending of politics and business, absence of share markets, inadequate shareholder protection laws, and an ineffective court system are the defining elements of the Ethiopian banking sector.

Active involvement of political parties in business through endowment companies, which were originally intended to conduct non-trade development activities, creates a gloomy condition for the growth of the private sector since party affiliated companies enjoy competitive advantages over private companies.

The absence of an organized and well regulated share market makes valuation and price discovery of banks problematic and thereby inhibits share markets from being sound corporate governance mechanisms (Negash, M.2008. Supra Note 104). In adequate shareholder protection laws and the ineffective court system affects investor confidence and discourages investors to put their capital in business.

As far as the poor competitive environment is concerned, banks can offer higher interest rate to attract customers provided it is not below the minimum rate set by NBE. However, there is no competition among private banks since they merely follow interest rate fixed by CBE. Unfortunately, this has helped private banks to curve out the market among themselves, and make exorbitant profits year after year in the absence of proper and strong corporate governance. She finally emphasized the need to draw up a code whereby the sector could compete in a fair and balanced environment and that NBE has this responsibility to shoulder.

2.8 Conceptual Framework

Various empirical evidences suggested that performances of financial institutions in general and that of banks in particular are affected by internal and external factors. Factors like capital adequacy, asset quality, managerial efficiency, earning ability, liquidity, bank size, technology, and human capital, loan performance, saving habit of the society, level of GDP, inflation and government regulation are the major determinants of their performances.

For banks to properly assess different internal and external factors to craft workable operational strategies and carry out strong risk management practices, having corporate governance in place is of paramount. This study is highly concentrated on corporate governance practices in the case company with emphasis on the role of board of directors' competencies to shoulder the responsibilities.

Conceptual framework

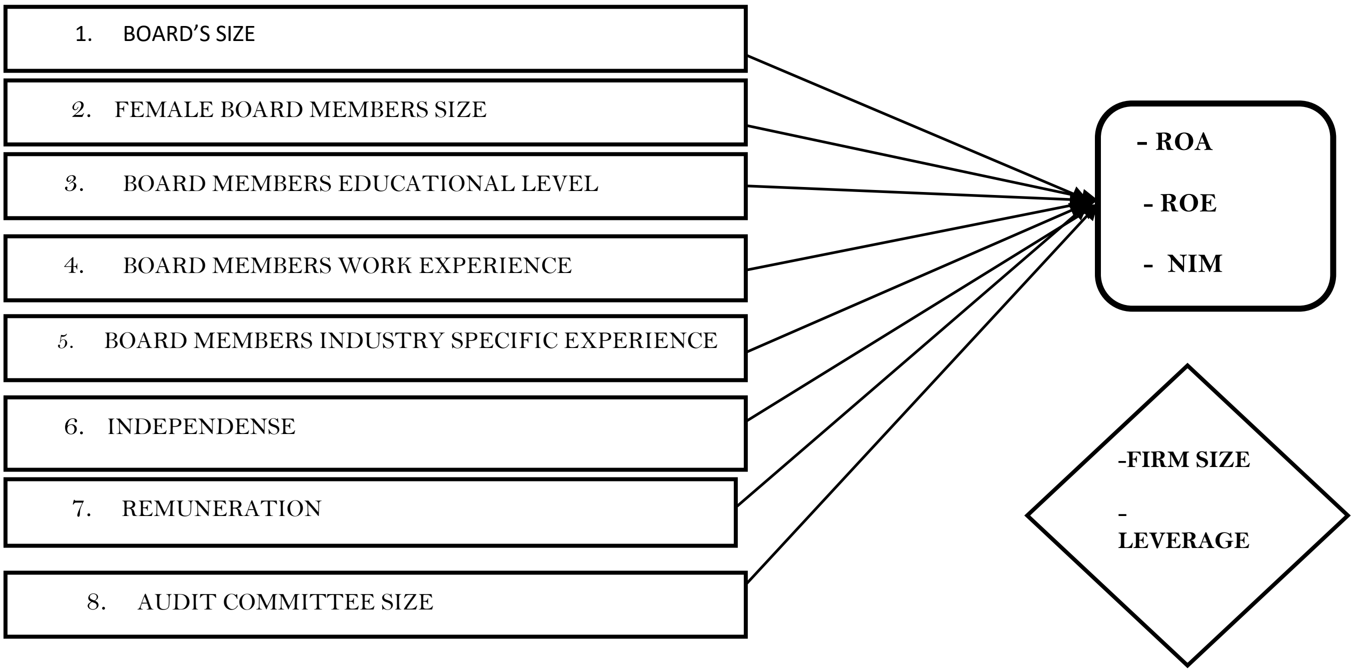

Figure 4 – conceptual framework of the study

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter discusses the research design and methodology. The chapter is organized in five sections. The first section 3.1 discusses the research design. 3.2. Research Methodology 3.3 Data collection 3.4 data Analysis and presentation 3.5 research approaches 3.6 accounting measures of the bank performance 3.7 confidentiality of Information 3.8 ethical considerations 3.9 reliability and validity of data and information used lastly, limitation of the methodology is presented

3.1. Research design and Approaches

The research work is primarily designed to thoroughly review policies, procedures, bylaws and directives the board of directors and its sub-committees are responsible to comply with. Review of the organisation structure of the case bank and assess the methods of communication used to give directions, comments and suggestions to management and feedback from.

Ensuring that each group in the organization echelon has clear duties and responsibilities assigned to. Check existence of understanding of the demarcation of scope of work and responsibilities between the board of directors and management.

Review of annual reports and audited financial statements to derive the banks performance indicators and trends during the five years (2012-2016). To further enrich the data gathering and adequacy of information for analysis and recommendation structured interviews with purposely chosen board and top management members were parts of the research design.

Descriptive, analytical and qualitative research methods applied to conduct this research. The descriptive method is used to identify and classify elements and characteristics of corporate governance and scope of the board of director’s responsibilities. The analytical approach extends descriptive approach to suggest and explain why and how something is happening.

Qualitative research uses a naturalistic approach that seeks to understand phenomena in Context-specific settings, such as "real world setting [where] the researcher does not attempt to manipulate the phenomenon of interest" (Patton, 2001, p. 39). Qualitative research, broadly defined, means "any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification" (Strauss and Corbin, 1990, p. 17)

The study employed Qualitative research method; Qualitative data gathered through interview from key informants have been thematically synthesized and analyzed. The Descriptive and qualitative method allows developing theory from our empirical findings with a focus on meaning expressed through words and descriptions (Bryman and Bell, 2007, p402).

3.2 Data Collection

3.2.1 Primary Data

In the collection of primary data face to face interview was conduct with the vice –president of the boards of directors, the board secretary and the corporate planning and business development management department on basic of corporate governance practice of the bank and the director's composition.

The interview questions and discussions were highly focused on learning how principles of corporate governance adhered to and compliances to NBE directives and rules and regulations concerning corporate governance issues. The areas of investigation include corporate accountability, corporate social responsibility, risk management and the protection of interests of other stakeholders apart from the shareholders. In fact data concerning board size, gender diversity, board members educational qualification and work experience, independence, remuneration, board meeting schedules and size of audit committee are also collected to test their correlation to the bank's performance indicators. Besides, structured questionnaire were distributed to the board members and management.

3.2.2. Secondary Data

Secondary source materials both on the theories and applications relevant to the study subject have been reviewed. Relevant books from different libraries were referred, internet resources were browsed and relevant published and unpublished documents from pertinent departments of the bank were reviewed. Moreover, data sources from the National Bank of Ethiopia (NBE), and various reports from the Basel Committee for Bank Supervision (BCBS), Organisations for Economic cooperation and development (OECD) principles for good corporate governance practice were explored in line with the research objectives. Furthermore, the following listed secondary data were used as crucial source of information regarding the historical background of the bank, the board of director's composition and the performance of the Bank.

- Various directives of the supervisory organ NBE;
- Commercial Code of Ethiopia;
- NBE's Corporate Governance Directive (draft document);
- National Bank of Ethiopia's corporate governance guidelines for Commercial Banks.
- NIB corporate governance practice handbook
- NIB annual reports from 2012 - 2016
- NIB Article and Memorandum of Association;
- NIB Board of Directors Charter;
- NIB boards of directors composition
- Relevant data from the banks reports, presentations and other documents; and
- Different publications and journals regarding banking activities and policies'.

3.3 Data Collection and Analysis

Under this study, a descriptive research design method has been used because the research aimed at assessing corporate governance practice Boards of directors composition and the performance of Nib International bank against international standards and best practices is a compliance check. Structured interviews were carried out with number of board of directors and senior management members of the Bank. Furthermore, all the data were exposed to appropriate qualitative analysis in line with the study objectives.

3.4 Research framework

SUBJECT	METHODS	TARGETS	ANALYSIS	CONCLUSION & RECOMMENATI
➢ Corporate governance and role of board of directors ➢ Case bank operational and financial performances for five years	➢ Intense review of literature. ➢ Company's documents review ➢ -Structured interview	➢ Theoretical perspectives of corporate governance ➢ Principles ➢ Importance ➢ Empirical studies conducted on corporate governance and board of directors role ➢ BOD's Compliance with regulations, policies, procedures and directives ➢ Performance results achieved.	➢ Analysis and interpretation of data and information gathered. ➢ Derive performance indicators ➢ Check Compliance with regulations, directives policies and procedures.	➢ Highlight findings and answers to the research questions. ➢ Enumerate main findings. ➢ Draw conclusions and provide recommendations.

Table 1- Research Framework of the study

3.5 Confidentiality

Interviewees were made aware of the purpose of information they provide. It was clearly stated it is for academic purpose. The information they released is not sensitive and has no negative repercussion in some way against them. Their personal opinions and comments on the issues promised to be handled with care and secrecy.

3.6 Ethical consideration

Care is taken to strictly adhere to proper research practice in conducting the research, data analysis and drawing conclusion. The research process is carried on in such a way that it does not harm data and information providers and other people in the company not involved.

3.7 Reliability and validity of data & information

Documents reviewed were checked for their authenticity by concerned bodies, government, National Bank, Board of Directors of Nib International Bank Share Company. Figures used to derive performance trends, charts, performance indicators like return on assets, net profit margin, return on equity are from annual financial reports approved and their reliability confirmed by external auditors

Information regarding board of director's election, gender diversity, educational background and work experience are facts disclosed to the National Bank of Ethiopia and are kept in office of the board of directors at Nib Bank Share Company.

3.8 Performance measures (Accounting measures of the bank Performance)

Among the major performance indicators of banks Return on Average Assets (ROA), Return on Average Equity (ROE), and Net Interest Margin (NIM) are the major ones.

The ROA reflects how assets the board and management of the bank used to generate profits from the bank' assets. It shows the profits earned per birr of assets and indicates how effectively the bank's assets are managed to generate revenues.

ROA = Net Income /Average Assets

Return on Equity (ROE) Owners (equity holders*)* are more concerned about how much the bank is earning on their equity investment, an amount that is measured by the return on equity (ROE), the net income per birr of equity capital.

ROE = Profit after tax/Total Equity

Net Interest Margin (NIM) - is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders. It shows how successful a bank's investment decisions are compared to its debt situations.

NIM = Net Interest Income/ Average Asset

3.9 Limitations of methodology

Financial ratio is an expression of the relationship between two items selected from the income statement or the balance sheet. Even if ratio analysis helps to evaluate the weak and strong points in the financial and managerial performance, it does not reveal the amount and quality of its components. Consequently, it could mislead the research results if there is an improvement on the ratio figure, but it may come from an increase or decrease of the individual components. This study was mainly based on qualitative studies. Secondary data are obtained directly from banks financial statement; therefore it may have potential bias from the data source.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Structure of the Board of Directors at Nib international bank

The board members were appointed by the general meeting of shareholders. This appointment is in compliance with "bylaws of the boards of directors" under article 2(4). The board's primary responsibility is to provide effective governance over the bank's affairs for the benefits of shareholders and the best interests of stakeholders. The board is responsible for drawing the bank's objectives, strategy and policy towards achieving sustainable results; and thus bears the overall accountability for the sound management of the bank. The term of service of the board of directors is three years.

On the basis of Corporate Governance Directive No SBB/62/2015 issued by the National Bank of Ethiopia, the Board of Directors of Nib International bank share company has organized itself into sub-committees that presumably enable it to closely supervise, control, and optimize utilization of human and material resources of the company for the good of all stakeholders. This board has twelve members that are assigned to the sub-committees depending on their qualification and work experience to review and come up with opinions prior to final decisions by the board meeting on issues impacting the company's activities.

The sub-committees are:

- Risk and Compliance sub- committee
- Audit sub-committee
- Human Resources Affairs sub-committee
- Operations sub-committee

Important role in the authority allocation blue print of the boards belongs to the committees' structures. Committees are mandated by the boards of directors with specific decision making authorities. The memorandum association provides the bases for delegation by stating that the board has the mandate. "....to delegate some of its powers to any of its members or to the officers of the bank". Following the current Bank Corporate Governance directives of the National Bank of Ethiopia No. SBB/62/2015, the board organized itself into four sub-committees of:

I. **Loan review committee**- The main duties and responsibilities of the boards loan review committee is to review and recommend changes in established credit policies and procedures to better met the bank's objectives, ensuring the all loans and advances which are equal to or above 5% of the bank's total capital and all non-performing loans and advances are reviewed on regular basis; ascertain regular review of representative of sample loans; review banks credit process in order to ensure that it is carried out in accordance with policy and procedure manuals enacted by the bank, pertinent banking laws and regulations issued by national bank of Ethiopia, monitor the credit department of the bank accomplishes the performance target set in the annual plan and has mechanisms to evaluate its progress ,submit quarterly loans review reports to the board of directors.

II. The board's Audit committee – maintain close working and reporting relationship with internal and external auditors of the bank; ensure receipt of a regular, concise, comprehensive, substantiated and solution oriented audit and inspections report from control department of the bank; review main findings of internal and external auditors and inspection reports and recommend actions to be taken to remedy deviations; ensure control department of the bank has a properly managed ,staffed and organised workforce; ensure there is a proper and effective financial management and IT security audit; review the overall trend of the major financial indicators and corporate governance of the bank; ensure that the bank has properly functioning risk management practices in the place to assess operational, foreign exchange, interest rate, liquidity and credit risks; ensure the existence of effective and efficient control system and submit the activities to the board as often as necessary but at least once every quarter.

III. **The board's business development committee –** initiate ,monitor and follow-up the development of new banking services and products ; initiate proposals for new development schemes; review feasibility study of opening new branches and inspect sites and buildings recommended for same and follow up profitability of branches;

oversea the strategic plan of the bank and recommend necessary adjustments and changes, monitors and supervises, the proper and timely implementation of the strategic plan; advice the bank enhancement of existing banking products and services as well as differentiation and diversification of market share development. in doing so, the priority of shall be given to information technology development and foreign currency generation activities of the bank; monitor the effectiveness of the bank's promotion and advertising operations; review customer satisfaction evaluation system of the bank and oversee improvement of same; oversee that planning and business development department of the bank accomplishes the performance target set in the annual plan and has mechanisms to evaluate its progress on a timely basis and submit quarterly activity reports to the boards of directors.

IV. **The board's human resource development and administration committee-** review relevant manuals and recommend policy changes; review issues related with staff development and training and gives necessary comments; monitor and follow up staff remuneration and benefits packages in the banking industry and measures recommended by NIB in order to maintain competitive edge; oversee bank's purchasing practices ,property administration practices to ensure that it is carried out in compliance with the relevant policies and procedures ,and the internal control system applicable thereto; oversee that the administration and human resources department of the bank accomplishes the performance target set in the annual plan and has mechanisms to evaluate its progress in timely basis and report to board of directors quarterly.

4.1.1 Power and duties of NIB boards:

- To direct, supervise and manage the activities of the bank subject to the provisions of the commercial code and relevant laws, the memorandum and articles of associations of the bank and resolutions adopted by the general meeting;
  - To decide on policy matters other than those to be determined by the general meetings;
  - To approve the work programme, budget and the internal regulations of the bank;

- To give directives to the president concerning the opening and operation of bank accounts and the use of bank's property as security ;and to propose the increase or decrease of the capital of the bank in general meeting;
- To approve loans and acquisition of fixed assets beyond the limits set in the internal regulations of the bank;
- To apply to the court where the bank stops payments with a view either to a composition with creditors or the winding up of the bank;
- To keep regular records of the management and of the meeting of the board;
- To submit the accounts to the auditors not less than fifty five (55) days before the notices calling the annual general meeting are dispatched;
- To submit annual report of the bank's operations to the general meeting;
- To convene the general meeting without delay when three-quarters of the capital is lost;
- To convene the annual general meeting;
- To set up reserve funds required by law;
- To appoint or dismiss the presidents and fixes his salary and allowances;
- To approve the employment of vice presidents department head and agents of the bank accountable to the president, fix their salary and allowances, and define their duties and responsibilities up on recommendation by the president.
- To approve entries in the register of the shareholders
- To approve the opening and closing of branches;
- To delegate some of its powers to any of its members or to the officers of the bank ;
- To exercise such other powers as are not given to the general meeting.

4.1.2 The bylaws of the board of directors NIB

In addition to the memorandum and articles of associations the board is also regulated and governed by its enacted laws and provision. The major articles incorporated in the bylaw are:-

- Constitution of the board
- Deposit of shares
- Proxy

- Power and duties of the board
- Leadership of the board
- Standing committees and the tasks of standing committees
- Duties and responsibilities of chairperson, vice chairperson, and director
- Conflict of interest
- Remuneration sharing
- Board secretary
- Removal of directors
- Meeting conduct (notice of meetings, agendas, and related documents, quorum, attendance of meetings, minutes, etc) and decisions

4.2 Directors' allowance and remuneration – directors shall be entitled to their Remuneration and as per the limit set by National bank of Ethiopia.

4.3 Composition and Qualification of the Board Members

	YEAR	2012	2013	2014	2015	2016
1	BOARD SIZE	12	12	12	12	12
2	BOARD GENEDER > MALE	11	11	10	10	10
	BOARD GENEDER DIVERSITY > FEMALE	1	1	1	2	2
3	BOARD MEMBERS EDUCATIONAL QUALIFICATION					
	PHD	3	3			
	MASTERS	1	1	3	3	3
	FIRST DEGREE	8	8	9	9	9
4	BOARD MEMBERS WORK EXPERIENCE OTHER THAN NO,5	7	9	10	10	10
5	BOARD MEMBERS BUSINESS MANAGEMENT EXPERIENCE					
	- FIVE YEARS AND ABOVE	5	3	2	2	2
6	BOARD MEMBERS INDUSTRY EXPERIENCE					
	-BANKING	2	2	1	-	-
	- INSURANCE	1	1	-	-	-
7	INDEPENDENCE					
	NON MEMBERS OF THE BANK	12	12	12	12	12
	BANK MANAGEMENT MEMBERS	-	-	-	-	-
8	Audit committee size	3	3	3	3	3

Table 2. Composition and qualifications of NIB boards

4.3.1 Board Size and Composition

Nib Bank's Board Members elected by the shareholders are twelve in number throughout the five years. In fact the gender diversity include female directors whose number increased from one to two from 2014 onwards.

4.3.2 Board members educational qualification

The board members who served the bank prior to 2015 were replaced as their three years term of service terminated. Their composition in terms of educational qualification was different. Three PhD, one masters and eight first degree holders were serving the bank as directors up to the end of 2013. In 2014 the number of PhD holders totally decreased and the masters' degree holders grew from one to three. Those with business management work experience over five years were five, three and two in 2012, 2013 and 2014 respectively while those with work experience in other areas of activities were seven, nine and ten during the same years.

On the other hand the new board of directors whose term of service that terminate at the end of 2017 has three masters and nine degree holders along with two members with business management work experience of over two years and ten members with work experience in other areas of work.

Unlike the newly elected board of directors the previous group had members with work experience in financial institutions industry specific.

4.3.3 Independence of Directors

The previous and newly elected boards of directors' members are all not employees of the bank and are relatively free from suppression in due course of participation in decision making process.

4.3.4 Audit Committee

The internal audit committee has three professional members that are employees of the bank reporting the Board of Directors. No change has been made in number of members of the audit committee of Nib Bank Share Company for the last five years.

4.4 Performance Indicators [ROE, ROA, NIM]

Years

	2012	**2013**	**2014**	**2015**	**2016**
Return on Equity	0.19	0.17	0.16	0.15	0.14
Return on Assets	0.051	0.043	0.058	0.051	0.078
Net profit margin	0.078	0.087	0.086	0.085	0.100

Table 3 -performance indicators of the bank

Figures in table 3 are performance indicators. The return on equity shows how much the bank is earning on its equity investment. The return the bank earned has been decreasing by about 1.25% on average. On the other hand the return on assets shows increase on four years signalling the use of assets to generate more and more profit each year. The net interest income margin raw again shows increase from year to year. These shows how successful the board and management of the bank's decisions visa vies its debt situation.

years

	2012	**2013**	**2014**	**2015**	**2016**
Bank size	9.92	9.96	10.03	10.12	10.20
Bank's leverage	4.42	4.49	4.47	5.09	5.29
Bank's growth rate	0.16	0.12	0.22	(0.13)	0.14

Table 4 . Control variables of bank performance

Figures in table 4 show the changes registered in terms of increase of the bank in size, the change in ratio of total debt of the bank when compared with the total equity, the last point is indicator of annual growth in revenue during the years covered by the research. Bank size is measured as natural logarithm of total assets at year end. Figures for bank size and leverage show steady growth from one year to the other. Fluctuations observed in the growth rate that is measured by increase in revenue each year. The growth rate ranges between 12% and 22% except decrease of 13% in 2015.

4.4.1 Five –Year Operational & Financial Performances of the Bank

It is worth noting the business environment the bank operates in prior to analysis of its operating and financial performances during the last five years. As learnt from previous researchers there is absence of share markets, inadequate shareholder protection laws, and ineffective court system coupled with a situation where there is blending of politics and business that creates a gloomy condition for the growth of the private sector since political party companies enjoy competitive advantages over private companies.

The absence of an organized and well regulated share market inhibits share markets from being sound corporate governance mechanisms. Private Banks are limited to compete with each other by deploying modern IT solutions for efficient service provision and shorten service delivery time. There is in fact no competition among private banks as they merely adhered to interest rate fixed by Commercial Bank of Ethiopia so long they offer interest rates to their customers is not below the minimum rate set by National Bank of Ethiopia.

The exorbitant profits they register in the absence of proper and strong corporate governance is mainly attributed to this directive that helped the private banks to carve out the market among them. This does not mean that competent board members have no contribution to the performances of the bank at all. Had not they used their wisdom along strong efforts within the given constraints their operational and financial performances would have declined for below what are exhibited at the moment.

Operational performances

The bank has shown growth in terms of branches expansion, employment opportunity, and number of deposit account from year to year.

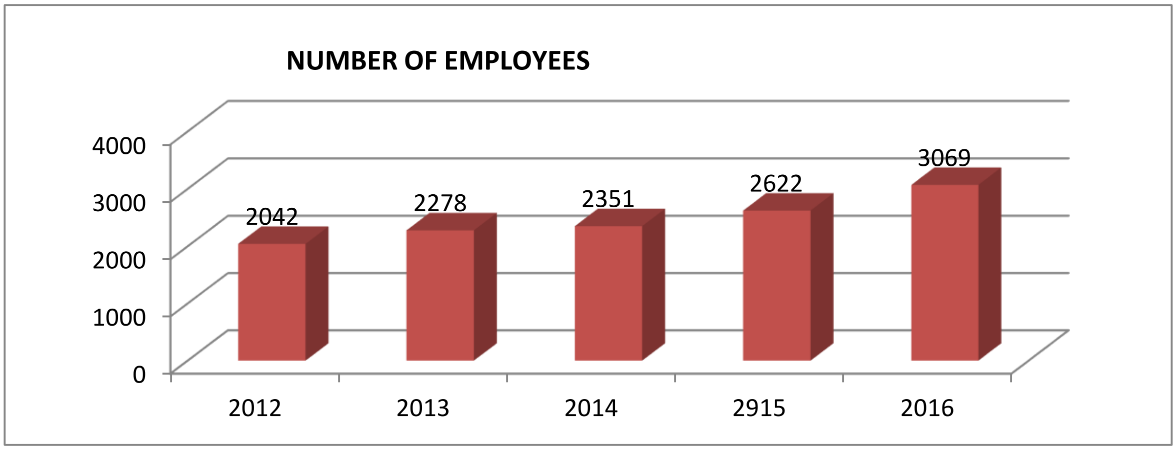

Figure 4- Operational performance of the bank employee opportunity

Human resources development is one of the major concerns in a company that strive for growth and sustainability. As shown in the chart the employment opportunity it provided to the society has been increasing from year to year though the growth is not in a uniform manner. In 2013 the number of employees that was 2042 increased by 236 raising the figure to 2278. Similarly the growth in employment continued in 2014, 2015 and 2016 by 73, 271, and 447 respectively. In total the growth in number of employees during the five years equals 1027 or about 50% of the figure in 2012.

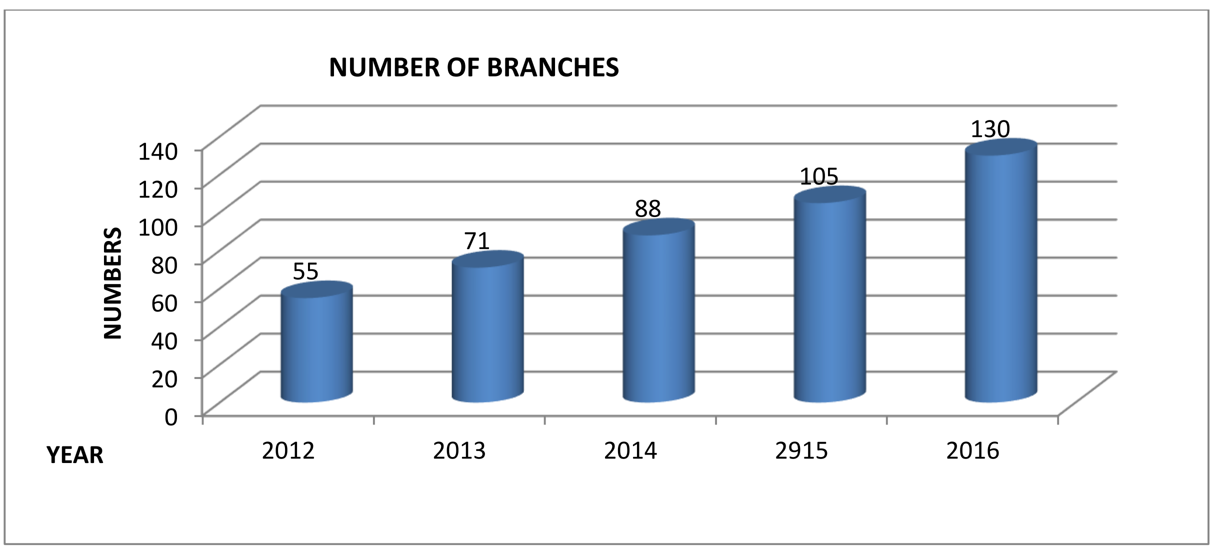

Fig.5 Last five years operational performance of NIB bank branch expansion

Increasing service providing places in areas where the bank management believe to have market is what has been done by the consent and approval of the board of directors. The growth in number of branches is one of the means to increase the market share by reaching additional clients. The number of branches grew by 16, 17, 17, and 25 each year form 2013 on wards.

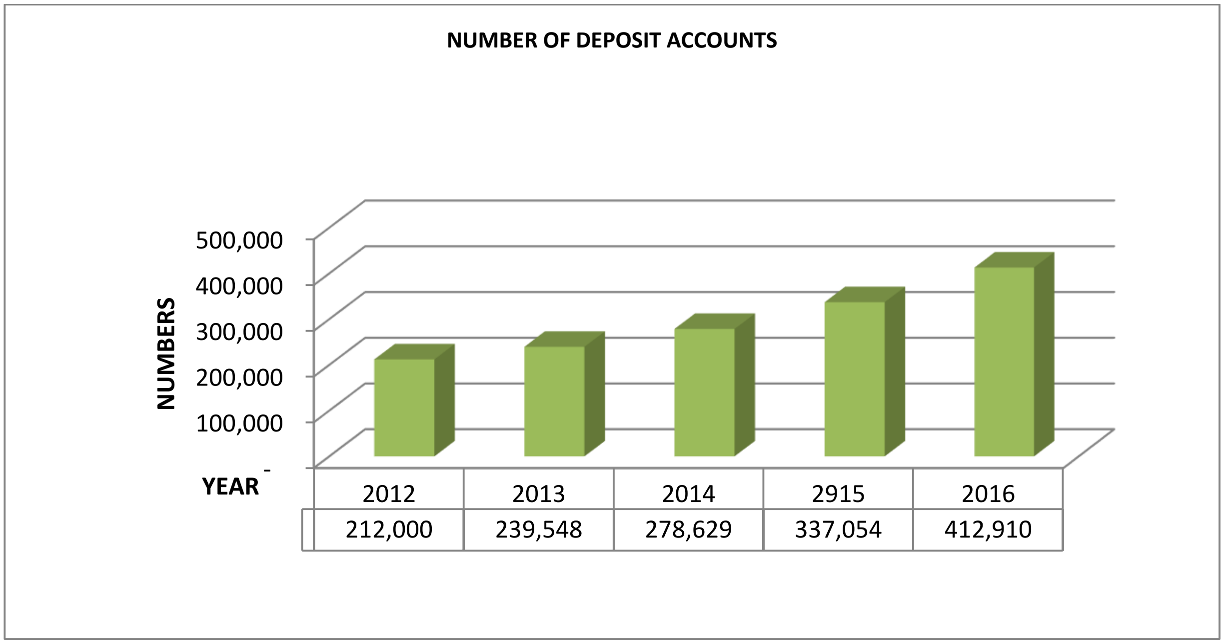

Fig.6 Last five years operational performance of NIB bank in increasing deposit accounts

The chart shows the increase of deposit account from one year to the other. The growth in percent is 95% within the last four years taking year 2012 as a base. This achievement clearly exhibits that operational performance of the bank is improving from year to year. The number of people that have confidence in the bank has been growing. This achievement can be seen as reliability of the bank's efficiency in providing satisfactory services to its customers.

In nut shell the overall operational performance of the bank has successively been improving in terms of branch expansion, increase in manpower to avail the task force that serve its clients, and results registered in attracting more depositors.

4.5.2 Financial performances

Analysis of major balance sheet and profit or loss statements is done to assess the financial performance. Total assets grew on average by 18%, Paid up capital by 11%, Liabilities by 16% loan and advances by 17%. On the other hand the bank is highly dominated by the big ones in availing foreign currencies on time and adequate quantity to satisfy its clients, some of which withdrew their money to buy the foreign currency they need for letter of credit from the other big ones. Thus the graph for margins held for L/C significantly declined by at least 28% on average s depicted by the chart.

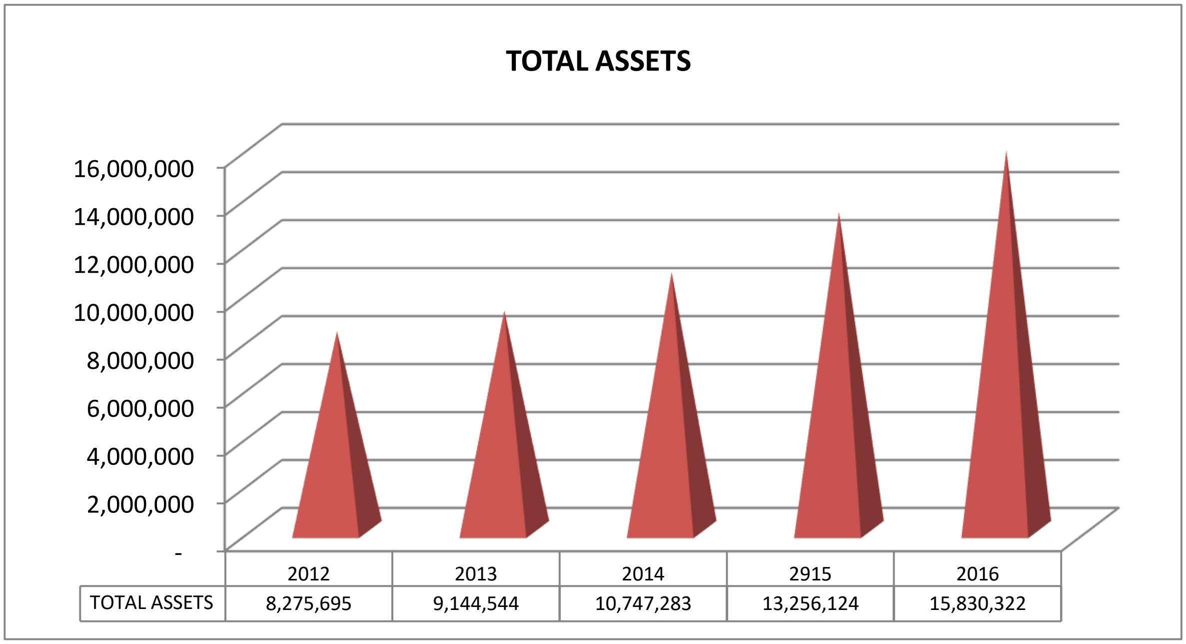

Fig.7 last five years financial performance of NIB bank total asset

Growth in assets is one of the indicators of strength of the bank. The growth registered is encouraging. The total asset of the bank that was to the tune of 8.3 billion birr has reached 15.8 billion. The growth registered in 2016 shows growth of 91%, 0ver that of 2012. The change in total assets growth within the past four years time indicates that it has becoming more and more strong to withstand threats in the business line it is operating.

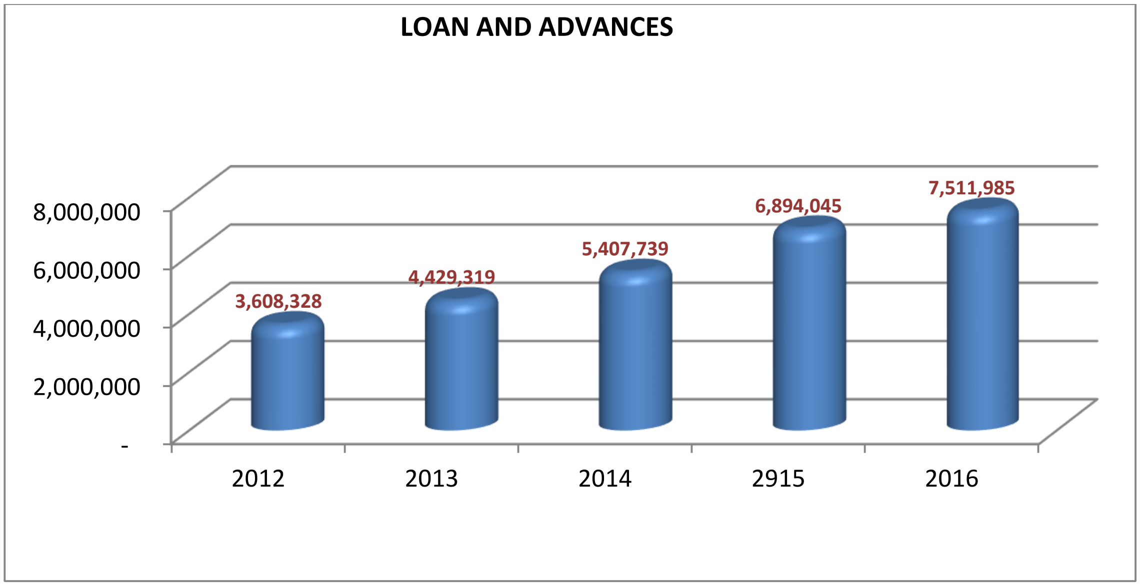

Fig.8 last five years financial performance of NIB bank loan and advances

The loan and advance account is one of the bank's main income sources, interest. The growth in loan and advance can be attributed to the growth in, branches, along with the efficiency of the bank in providing loans and advances. The record that was about 3.6 billion grew to above 7.5 billion birr, more than double. This again can be seen as one of the achievements of the bank that signals it is moving forward.

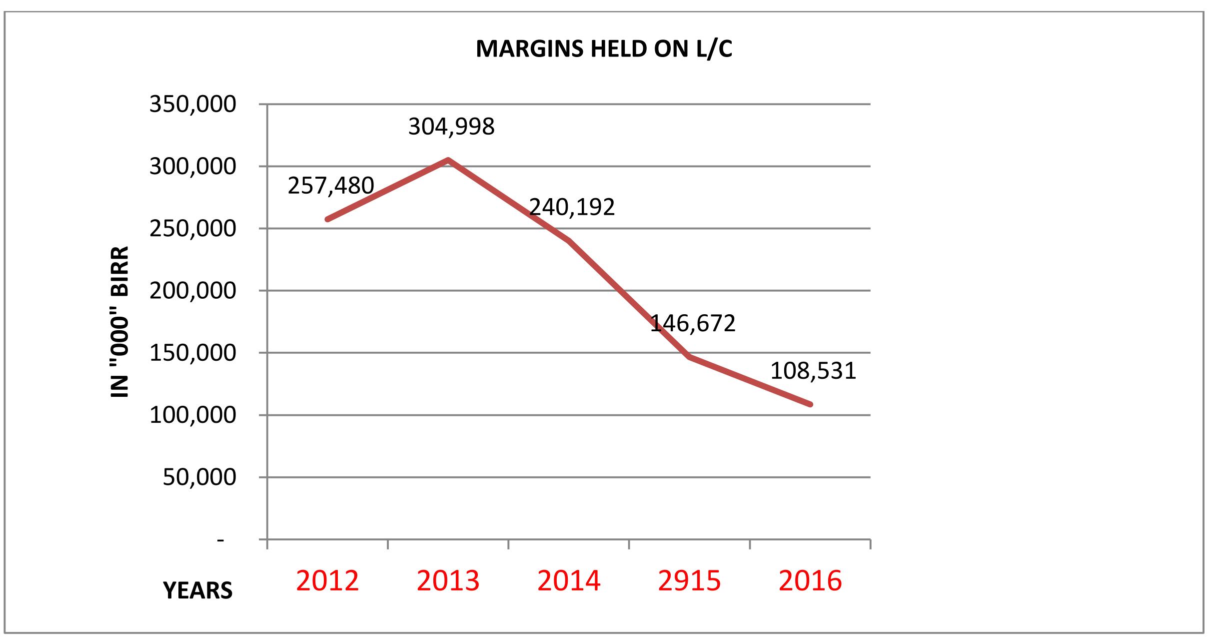

Fig.9 last five years financial performance of NIB bank margin held on L/C

The margins held for letter of credit have been declining from year to year. The drop in figure between 2012 and 2016 is about Birr one hundred forty nine million. The money they earn from international banking operation is declining as well. According to the banks report the decrease in trend of this income is attributed to decreasing trend of foreign exchange generation caused by the country's export performance. This situation is aggravated by the dominance of the big banks that better avail foreign currencies to the importers.

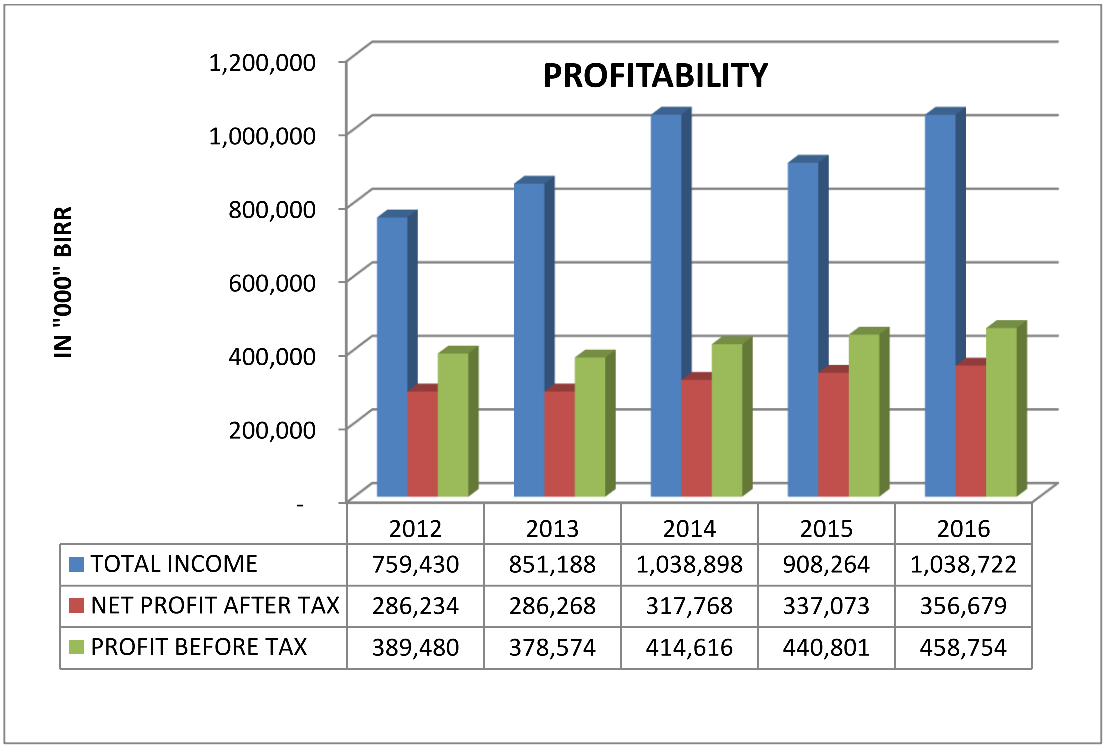

Fig. 10 Last five years financial performance of NIB bank profitability.

Analysis of the Income Statement Account indicates growth in revenue was achieved every year except in 2015. Despite minor decrease in the annual revenue, there are slight increases in profit before and after taxes in 2015. This can be attributed to various factors like rate of decrease in expenses, shortage of foreign currency for letter of credit that has impact on commission income of the bank. As depicted by the chart the bank has never faced loss, it rather has profits grown in aggregate.

4.6 Corporate governance practice in Nib International Bank versus OECD Guidelines.

This critical evaluation used OECD Guidelines as bench mark to see what shortcomings limited the bank to satisfy the accepted standard.

I. Ensuring the Basis for an Effective Corporate Governance Framework

The guidelines assume that financial institutions especially banks operate in business environment where strong and well regulated share markets exist as major source of finance to mobilize domestic resources and create conducive working climate to attract foreign direct investment. The guideline requires that corporate governance framework should promote transparent and efficient markets that are consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. The corporate governance framework should be developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and efficient markets.

In fact the regulations and directives issued by the supervisory body, the National Bank of Ethiopia can help guide and regulate the activities of the banks in a uniform fashion. They can provide framework that encourage and support corporate governance, but, however, they are not adequate enough to establish standards of good corporate governance. As Nib Bank is one of the private banks operating under the supervision and directives of the National Bank of Ethiopia it does not have the basis for effective corporate governance framework.

II. The Rights of Shareholders and Key ownership Functions

The corporate governance framework should protect and facilitate the exercise of shareholders' basic rights. Equity investors have certain property rights such as to sell, buy or transfer an equity share in a publicly traded company. Shareholders are also entitled to participate in the profits of the corporation, with liability limited to the amount of the investment. They should have the opportunity to participate effectively and vote in shareholders general meetings and should be informed of the rule, including voting procedures that govern the general shareholder meetings. In addition, all shareholders including institutional investors have to exercise their ownership right to influence the corporation and its management. Rights of shareholders and key ownership functions in OECD Guide lines are exercised in Nib International Bank Share Company.

III. The Equitable Treatment of Shareholders.

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights. All shareholders of the same series of a class should be treated equally. Investors' confidence that the capital they provide will be protected from misuse or misappropriation by corporate managers, board members or controlling shareholders is important factor in the capital markets. Corporate boards, managers and controlling shareholders may have the opportunity to engage activities that may advance their own interests at the expense of non-controlling shareholders like insider trading.

The Ethiopian Banking Industry landscape is characterized by dominance of State Owned banks like the Commercial Bank of Ethiopia the largest in the Industry. Foreigners are prohibited from owning shares in the financial institutions of the country because of fear of boost of the local private sector by the policy makers. The researcher has not come across of incident where a shareholder in Nib Bank whose shareholder rights violated and given effective redress for same.

IV. The Role of Stakeholders in Corporate Governance

The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. It is, therefore, in the long-term interest of corporations to foster wealth-creating cooperation among stakeholders. The governance framework should **recognize** that the interests of the corporation are served by recognizing the interests of stakeholders and their contribution to the long-term success of the corporation. So far the private banks corporate governance frameworks of the land do not encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. Similarly Nib International

Bank’s corporate governance framework does not have provision in its policy to encourage the type of co-operation the guide line advocates for.

V. Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. Public disclosure is considered as a minimum requirement at certain intervals preferably on an annual basis. Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure. An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects. A strong disclosure system that promotes high transparency is basic characteristic of market-based monitoring of companies and is central to shareholders; ability to exercise their ownership rights on an informed basis.

Disclosure and Transparency regulations in the Commercial Code of Ethiopia and directives of the National Bank of Ethiopia are more or less complied with. Financial Statements are prepared on the basis of Generally Accepted Accounting Practices (GAAP). The statements are not prepared on the basis of International Financial Reporting System (IFRS). Directives issued from NBE require financial institutions adopt IFRS 2018 onwards. Company reports coupled with external auditors findings and recommendations reach shareholders when summoned for annual meetings.

VI. The Responsibilities of the Board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. The board should fulfill certain key functions, including reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives;

monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestments (if any). The board is also responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. In order for boards to effectively fulfill their responsibilities they must be able to exercise objective and independent judgment.

According to the researcher‘s interviewee board directors in Nib play important roles in areas of supervision, control and overseeing major capital expenditures, acquisitions and divestments (if any).

4.8 Interpretation and analysis of data gathered with respect to the following topics.

Assessment of the composition of the Board of Directors in light of accepted standards.

Various literatures on corporate governance highly emphasize the need for board of directors to resolve agency problems in business organizations. Researchers who worked corporate governance practices stress the importance of identifying the appropriate board size is essential as it is detrimental to corporate governance effectiveness beyond optimal level. Determining the ideal size of the board of directors has being an ongoing and controversial debate in corporate governance literature. Research findings so far are of mixed results some advocate that small size is preferable to large size and others yet not dared to come up with definite numbers.

Either Basel committee on banking neither supervision nor OECD set definite number for board size except setting principles to comply with. Some researchers who tried to test the impact of board size with statistical analysis suggest board size that range between 6 and 12 is recommendable. A directive of the National Bank limits the minimum size to be nine members in a board of directors. The size of board of directors in Nib International bank is 12 and thus complies with the directives.

4.8.2 Nib Bank’s Board of Directors composition from OECD principles and directives of the National Bank of Ethiopia perspectives.

The polices of OECD, and that of Basel Committee on banking supervision principles suggest the board of directors be composed of competent and highly qualified members to satisfactorily discharge their responsibilities of overseeing the organization's management action and consistency with board policies. Participation of female directors has been encouraged and found to be fruitful in developed countries without compromising qualification and competence. However, researches conducted in private banks indicate the number of female directors is so discouraging. Various factors could attribute to the effect. Nib bank has female directors not more than two though it is a good sign but not satisfactory. A lot of work has to be done to bring about change in this line.

4.8.3 Analysis of Operational and Financial performance trends of the Case Bank during the time frame covered by the case study.

Reliable data gathered and compiled from Nib International Bank depict satisfactory results in terms of aggregate increase in revenue, number of branches, clients depositing their money amount of loan and deposit during the five years. Figures for performance indicators trend shows up and down trends though not bad in aggregate. The fluctuations could be due to external factors and internal factors as well. Results for 2016 are the highest for all the three indicators. The change could presumably be extra efforts exerted by the competent board members.

4.8.4 Attributes of the role played by the Board of Directors to improve the bank's performance.

Educational qualification and work experience of the members is commendable to satisfactorily discharge their responsibilities. The organization set up and the clear demarcation of their responsibilities and accountabilities indicate they are on the right track to direct, supervise, control the activities of the management and its crew.

They have regular meeting schedule every two weeks to deliberate on issues that need decisions and directions to enhance the activities of the bank. In case of urgency they can meet any time to provide solutions to managerial problems. Discussion on variances between plan, budget and actual performances are areas of their concern. This close follows up and supervision has direct positive impact on the banks performance. Their share of contribution to the achievements attained can be deduced to be significant.

CHAPTER FIVE
CONCLUSION AND RECOMMENDATION

5.1 Summary of the major findings:

From reviews of primary and secondary data and information the major findings of the study are as follows:

- The Board of Directors of Nib International Bank is the top executive unit responsible for supervising the activities of the management and it is legally and ethically responsible for the shareholders.
- The members of the board of directors are nominated by the shareholders.
- The directors are twelve in number with gender diversity of two female and ten male.
- Twelve of them are independent; they are not employees of the bank. Their educational qualification is first degree and above.
- All the board members have work experience over five years in their areas of expertise. There are members with industry specific and business management work experiences.
- The board of directors has regular meeting schedule every fifteen days to discuss the bank's situation any matter arise or any new suggestions.
- The banks organization structure and bylaw depict relationships, flow of responsibilities, authorities and formal lines of communication throughout the system.
- The bank has audit committee comprising of three directors with required qualification two of which have business management qualifications and over five years work experience.
- Nib Bank has risk and compliance sub-committee composed of three directors that have responsibilities of overseeing managerial activities in managing credit, liquidity, operational, legal and other risks.
- It has Human Resources sub- committee comprising of three directors responsible to provide formal and transparent proposals on the employment and removal of senior management member.
- The term of office of the board of directors of the bank is three years. A director may not serve for more than six consecutive years. He may be elected after a lapse of six consecutive years.

- The trend in the banks operational and financial performances during the five years time frame exhibited general growth except margins held on letter of credit that indicate significant decline all the years through.
- According to empirical studies conducted on corporate governance in private banks in Ethiopia the business platform has the following drawbacks.
    - Absence of an organized and well regulated share market
    - There is a blend of politics and business
    - Poor competitive environment in the banking sector of the country.

5.2 Conclusion

Assessment of compliance board of director's composition with principles issued by Organization for Economic Cooperation for Development (OECD), Basel Committee on banking supervision and directives of the National Bank of Ethiopia is one of the objectives of this research. Board's composition refers to board size. Board size is crucial to achieving the board effectiveness and improved firm performance. Qualifications and work experience of directors is vital to clearly understand their role in corporate governance and to exercise sound independent judgment about the affairs of the bank.

Most of the researchers who worked on corporate governance practices stress the importance of identifying an appropriate board size are essential as it is detrimental to corporate governance effectiveness beyond optimal level. Determining the ideal size of the board of directors has being an ongoing and controversial debate in corporate governance literature.

Neither Basel Committee on banking supervision nor OECD has set definite number for board size. However, some researchers who tried to test the impact of the board size on performance using statistical analysis methods suggest board size between six and twelve is recommendable. A Directive of the National Bank of Ethiopia limits the minimum size to be nine. As the size of board in Nib International bank is twelve it is in accordance with those researchers suggested range of numbers and the National Bank of Ethiopia's directives.

Another area of concern of the researcher was to learn the competence of the board of director's in playing effective supervisory and control role that struck a balance in satisfying the interests of both owners and managers by significantly reducing issues of conflict leaving favorable working climate for better performance. Growth in operational and financial performances during the time frame of the study are vivid evidences that signal the creation of conducive working environment that in turn resulted better outcomes from year to year.

Good corporate governance contributes to the efficient mobilization and allocation of capital, the efficient monitoring of corporate assets; and improved national economic performance. This is hardly possible without highly committed and qualified board directors and fertile business environment to subsequently register growing performances. With the use of information from interviewee, literature review, primary and secondary data from hard copies and web-sites analysis were done to infer the board of directors contribution to the attained results.

5.2 Recommendation

With this research an assessment of corporate governance practices the compositions of boards of directors and financial performance of Nib bank examined with evidences obtained from the company's web-site, discussion with a senior board member, board office secretary and Director of the corporate Planning Business Development department. Despite difficulties in the banking industry's platform and non-competitive environment the organizational set up and a human capital resource it has is recommendable. The financial results obtained are not discouraging.

- The researcher has not have a lot to recommend on areas within the control of the bank as most of the limitations observed are attributable to the external factors like government regulations, states of the economic policies of the land. However the board has to strive for increasing its market shares and capture niche markets as the number of private banks and micro-finance institutions are steady growing.

- Efforts have to be exerted to increase the female board members without compromising their qualifications and experience. Different studies in developed economies highly recommend females participation in board of directors of firms. This is the duty of the Shareholders General Assembly to elect women for board membership and balance the gender composition of the board; it should able to promoting the role of women in the Board.

- Disclosure of information is one of the most severe problems the bank is facing in terms of good corporate governance practices. Only Financial Position and performance of the bank are disclosed on annual basis to the public as per the commercial code of Ethiopia proclamation requirement. Major share ownership and voting right, remuneration policy and governance structure are not disclosed to shareholders and to the public. Information to be part of a disclosure requirement as stipulated in OECD principles.

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APPENDICES

ST.MARY UNIVERSITY
COLLEGE OF GRADUATE STUDIES
MBA PROGRAM-GENERAL

Dear respondents:

Thank you very much for your cooperation to take time to respond to this research interview. The research is being conducted by a prospective graduate student of St. Mary‘s university MBA programme.

This survey is asking interviewing questions on banks corporate and of board of directors in the firms performance in the particular case of NIB International Bank S.C.As experienced board member, your accurate and candid response is imperative for the successful accomplishment of the study. Please be certain that your responses will be treated strictly confidential, your identity anonymous, and the results will be used for the purpose of this research only.

Enclosed with this letter is a brief interview questions that asks a variety of face-to –face interview about the corporate governance the composition of boards directors and the performance of Nib international bank Share Company.

Sincerely,

Mieraf Tsegaye
Prospective graduate in Masters of Business Administration
School of Graduate studies
St. Mary University