ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

POLICY AND PRACTICES OF CORPORATE GOVERNANCE IN COMMERCIAL BANKS OF ETHIOPIA: THE CASE OF COMMERCIAL BANK OF EHIOPIA (CBE)

By

BIRUK TESFAYE KEBEDE
SGS/0467/2009A

June, 2018
Addis Ababa, Ethiopia

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APPROVED BY BOARD OF EXAMINERS

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Dean, Graduate Studies **Signature**

_____________________________ _____________________
Advisor **Signature**

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External Examiner **Signature**

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Internal Examiner **Signature**

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List of Acronyms and Abbreviation

BCBS	-	Basel Committee on Banking Supervision
CBE	-	Commercial Bank of Ethiopia
CEO	-	Chief Executive Officer
CRO	-	Chief Risk Officer
GAAP	-	Generally Accepted Accounting Principles
IAF	-	Internal Audit Function
IBM	-	International Business Machine
IFRS	-	International Financial Reporting Standard
NBE	-	National Bank of Ethiopia
OECD	-	Organization for Economic Co-operation and Development
RAS	-	Risk Appetite Statement
RBI		Reserve Bank of India
SPSS	-	Statistical Package for Social Science
St. Dev.	-	Standard Deviation

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Abstract

The primary aim of this study was to examine the policies and practices of corporate governance of Commercial Bank of Ethiopia on the basis of best practices and principles endorsed by Basel committee on Banking Supervision. It adopted a descriptive research design and followed cross-section research strategy. The target populations of the study were Executive and Middle-Level Managers from the head office and Branch Managers from selected branches of the bank. Hence, the inquiry used both simple random sampling and purposive sampling technique in order to select sample from target population. In the study, it was founded that Commercial Bank of Ethiopia has a corporate governance policy, which adopted the principles enshrined in Basel Committee and OECD guidelines. The bank uses these basic principles to guide the roles and responsibilities of key corporate actors, design of remuneration structure, performance management systems, and internal audit, risk, and compliance management processes of the bank. Besides, both internal and external factors affect the effectiveness of the policies and practices of corporate governance of the bank. The findings of the study also indicates that management reluctance in implementing the provisions of the corporate governance policy, deficiency in the professional competency of board members, undue political interference and lack of corporate culture are the major challenges that limits the effectiveness of corporate governance of the bank. Finally, , based on the findings, the researcher recommends that the board, senior management, National Bank of Ethiopia, and the government should work together to ensure the integrity and effectiveness of the policies and practices of corporate governance in the bank.

Key Words: Corporate Governance, Basel Committee on Banking Supervision, OECD, Descriptive Research Design, Cross-Sectional Research Strategy

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The word "governance" refers to all the procedures of leading, accepted by management, marketplaces, board of directors, household, community or non-official associations, and ruled over laws, customs or authority (Mosaic, 2010). The idea has been growing in use starting from 1980s, but its origin can be dated back as old as mankind living together with its inborn desire to ensure good governance among itself for peace and cooperation (Ajagbe et.al 2015). Furthermore, Fernando (2006) states that, governance in relation to a business organizations concerns with the intrinsic nature, purposes, integrity and identity of the organization and focuses primarily on the relevance, continuity and fiduciary aspects of the organization. It involves monitoring and overseeing of strategic direction, socio-economic and cultural context of the organization. Hence, Corporate Governance, in a business entity, may be called an umbrella term encompassing specific issues arising from interactions among senior management, shareholders, board of directors and the society at large.

Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. Banks play an important role in the economy by bridging the capital of savers and depositors to activities that assist private enterprises and helps to drive the economic growth of a country. The soundness and safety of banks is important for financial stability since their business is crucial to economic health of a country (Basel Committee on Banking Supervision, 2015). A bank can have effective corporate governance when it fosters efficient monitoring of corporate assets, effective risk management and greater transparency of banking activities and assists on developing and maintaining public trust and confidence in the banking system. Contrarily, when a bank has poor corporate governance, it contributes to its failure which leads to liquidity and bankruptcy resulting in adverse impacts on the financial system of a country (Asnakech, 2013).

In response to growing awareness of the importance of good corporate governance, different international agencies, particularly the Organization for Economic Co-operation and Development (OECD) and Basel Committee, have been undertaking work in areas relating to

corporate governance. These agencies set out principles that are intended to help policy makers evaluate and improve the legal, regulatory, and institutional framework for corporate governance, with a view to support economic efficiency, sustainable growth and financial stability. According to Basel Committee on Banking Supervision (2015), the Basel Committee's principles are drawn from OECD's principles of corporate governance and well-expanded by "Banks for International Settlement". The main purpose of these principles is to help the government in monitoring and improving corporate governance framework and to serve as a guiding document for participants and regulators of financial markets. The size, complexity, structure, economic significance, risk profile and business model of the banks should be considered in the implementation of these principles.

The banking sector performs very important functions to the growth of capital formation and investment as well as for economic development in Ethiopia. Banks have responsibilities to activate deposits from the public and spread loans and advances to customers. They also involve in financing public projects, which contribute to the development of the country. Therefore, proper functioning and good performance of banks is very crucial for the economic growth of Ethiopia. By considering these factors, banks are regulated by directives issued by National Bank of Ethiopia. However, besides to these directives, banks themselves need to practice some corporate governance principles that safeguard the interests of shareholders and other stakeholders to ensure effective corporate governance in the banks (Desta & Rao, 2016).

Effective corporate governance are recognized for the benefit they have on financial stability and long term growth of the country. Hence, this study examined the policy and practices of corporate governance on Commercial Bank of Ethiopia (CBE) from the perspectives of international principles and best practices. It attempted to assess bank's policies and practices of corporate governance based on Basel committee principles and best practices and point out the major policy interventions required to maintain the effectiveness of corporate governance at CBE.

1.2. Statement of the Problem

"Corporate governance has become an issue of global significance in recent years. The improvement of corporate governance policies and practices is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of countries and corporations" (Ibrahim et.al 2010, p. 8). "Corporate governance of banks is of even greater importance given the dominant position of banks as providers of fund. In developing countries, banks are typically the most important source of finance for the majority of firms" (Lupu & Nichitean, 2011, p. 220-221). When a bank fails to practice good corporate governance or lack effective governance policy, it may result in insolvency and makes customers and investors to be less reliable in the financial system of the country. These will hinder the normal functioning of the banking system and the economic development of a country (BSBC, 2006 as cited in Ahmed et.al 2017). Thus, effective corporate governance practices are fundamental to gain and maintain the confidence of customers and investors on the banking system and also to create a stable financial environment for the growth of a country.

The problems of poor corporate governance are the main concerns in most of developing countries like Ethiopia. According to Asnakech (2013), ensuring effective corporate governance in the banking sector of Ethiopia becomes more difficult due to different constraints. She specified that lack of well-developed corporate culture, the absence of an adequate legislative framework, political parties' involvement, inadequate shareholder protection laws and the ineffective judicial system, discrimination of regulatory rule enforcement between state-owned and private banks, lack of knowledgeable stakeholders and a culture of accepting miss-governance are some of the challenges observed in Ethiopian banking sector. As a result, the practice of corporate governance has not been evolved in a balanced form with the expansion of banks and economic growth of the country.

Given the importance of corporate governance in the banking sector, many researchers in Ethiopia conducted their studies on corporate governance from different perspectives. A study by Yohannes (2016) indicates the importance of establishment of corporate governance policies in overcoming the gap in the commercial code of Ethiopia and analyzed its impact on the performance of private commercial banks of Ethiopia. Studies conducted by Abdurazak (2017) and Kibrysfaw (2013) have also showed the impact of corporate governance mechanisms on the

performance of private commercial banks of Ethiopia. Moreover, Abebe (2015) conducted his study on the assessment of corporate governance practices on Construction and Business Bank by focusing on few elements of internal corporate governance mechanisms. Paulos (2015) also studied the application of OECD principles of corporate governance on private commercial banks of Ethiopia. However, these studies focused on the practices of corporate governance mechanisms and solely based on the earliest publications of Basel committee principles of corporate governance. These studies had also been undertaken by merely considering the private commercial banks of Ethiopia. Hence, up to the knowledge of the research, there are no researches conducted with a focus on recent publications of Basel Committee's corporate governance principles and best practices and by considering a state-owned bank. Therefore the researcher believes that further empirical study is required to seal the gap and contribute to an existing body of knowledge.

Hence, this study tried to examine the policies and practices of corporate governance of Commercial Bank of Ethiopia (CBE) in the light of international corporate governance principles and best practices. It considered the corporate governance principles and best practices endorsed by Basel Committee and published in recent years to evaluate the policies and practices of corporate governance at CBE. Moreover, it tried to assess the major challenges and factors that affect corporate governance practice of the bank and provided the necessary policy interventions required to enhance the current practice of corporate governance in the bank.

1.3. Research Questions

Based on the above stated problems, the study tried to answer the following research questions:

1. To what extent do the corporate governance policies of CBE are established in accordance with principles recognized by Basel Committee on Banking Supervision?
2. How does CBE practice corporate governance relative to principles and best practices endorsed by Basel Committee on Banking Supervision?
3. What are the factors affecting policies and practices of corporate governance at CBE?
4. What challenges are observed on the policies and practices of corporate governance at CBE?

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of this study is to assess policies and practices of corporate governance at CBE based on the principles and best practices endorsed by Basel Committee on Banking Supervision.

1.4.2. Specific Objectives

From the general objective, the following specific objectives are formulated:

- ✓ To assess the corporate governance policies of CBE based on principles endorsed by Basel Committee for Banking Supervision.
- ✓ To examine the corporate governance practice of CBE in the light of corporate governance principles and best practices recognized by Basel Committee on Banking Supervision.
- ✓ To identify the major factors affecting policies and practices of corporate governance at CBE.
- ✓ To identify the observed challenges on the policies and practices of corporate governance at CBE?

1.5. Definition of Terms

1. Corporate Governance: a set of relationships between a company's management, its board, its shareholders and other stakeholders which provide the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. (Basel Committee on Banking Supervision, 2015, p. 1).
2. Policy: "A definite course or method of action selected (by government, institution, group or individual) from among alternatives and in the light of given conditions to guide and, usually, to determine present and future decisions" (ILRI, 1995, Sec. 1.3).
3. Bank: A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. (Akrani, 2011, para. 1-2).

4. State-owned Bank: State-owned banks are banks which are controlled and supervised by the government or government related body.

5. Basel Committee on Banking Supervision (BCBS): is the primary global standard setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability (Bank for International Settlement, 2016, Sec. 1).

1.6. Significance of the Study

As stated earlier, the objective of this study was to assess the policies and practices of corporate governance at CBE based on Basel Committee's principles and best practices. Hence, it will contribute to an existing body of knowledge by showing whether such principles and practices are implemented at the state-owned bank of Ethiopia and by identifying the major factors and challenges observed in the practice of corporate governance at this bank. Furthermore, it may serve as a reference material for policymakers and other researchers who need to make a research on this area at a wider scale and to carry out their analysis on the influence of such principles and practices on the performance of state-owned banks.

1.7. Scope and Limitation of the Study

This study mainly focused on the assessment of policies and practices of Corporate Governance based on Basel Committee principles and best practices at CBE. It considered only the head office and selected branches of the bank in Addis Ababa region. The three selected branches include Finfine Branch, Mexico Branch and Addis Ababa Branch. Moreover, it considered Executive and Middle-Level Managers at the head office and Branch Managers at the branches. These make up the target population for the study. Theoretically, it focused on the Basel committee's principles and best practices of corporate governance published in recent years with more focus on the 2015 guidelines. In addition, it used other corporate governance principles and previous studies of different scholars as a supportive document. The researcher had the intention of incorporating board members in the target population. However, because of their unavailability at the required time and their unwillingness for cooperation restrict the researcher to merely focus on managers of the bank. In addition, the researcher tried to get access to

corporate governance policy manual of the bank and use it as a secondary source of data, yet, due to lack of cooperation and unwillingness to give the policy to external body, the researcher couldn't directly use such document for the purpose of the study.

1.8. Organization of the Research Report

The research report is organized in five chapters. The first chapter includes background of the study, statement of the problem, research questions, objective of the study, definition of terms, significance of the study, scope & limitations of the study and organization of the research report. The second chapter includes review of the related literature. The third chapter provides research methodology and the fourth chapter shows discussions and analysis of the empirical data. Finally, the last chapter draws conclusions of the findings and forward some recommendations based on the findings. Besides, reference list, questionnaire and interview questions are attached at the last.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Introduction

"Interest in governance stems from the perceived limitations of traditional institutions and conventional structures to impose 'rules' on people, and the need to balance power, authority and concern for stakeholders and the wider good" (Mosaic, 2010, p.1). Regarding the concepts and issues raised in governance, it is very broad. Corporate governance, however, is specific to business practices in private and public institutions. Although in the literature, the discussion seems to center on the relationships that develop within a firm, it also encompasses the relationship created between the corporation with its shareholders, the workforce and the society at large. Corporate governance also encompasses the setting of an appropriate legal, economic and institutional environment that allows companies to pursue long-term shareholder value and maximum human-centered development, while remaining conscious of their other responsibilities to stakeholders, the environment and society in general (Akinboade and Okeahalam, 2003).

This chapter develops a theoretical, empirical and conceptual framework of the research by reviewing literature in line with the general objective of the study. It composed of research works, books, articles and other sources in order to measure and understand the level of corporate governance practice in both public and private banks in Ethiopia. The chapter has been organized in the following sections. First section will discuss the major issues of corporate governance including its principles, practices factors and challenges. The second section will review and summaries previous works of different scholars on the nature of corporate governance banking sector. Under this section, all relevant landmarks related to corporate governance has been raised to see the broad spectrum of the subject matter and to serve as a backbone in answering the research question. The third section will provide a conceptual framework of what have been discussed in the theoretical and empirical literature review.

2.2. Review of Theoretical Literature

2.2.1. The Concept of Corporate Governance

Before investigating further on the subject, it is important to understand the concept of corporate governance through definitions. The vast amount of literature available on the subject ensures that there exist innumerable definitions of corporate governance. Shodhganga (2002), define corporate governance both from the narrow and broader sense. In a narrow sense, corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders. In a broader sense, however, good corporate governance- is the extents to which companies are run in an open and honest manner- is important for overall market confidence, the efficiency of capital allocation, the growth and development of countries' industrial bases, and ultimately the nations' overall wealth and welfare.

According to the Basel Committee on Banking Supervision (2015, p. 1)

> *Corporate Governance is a set of relationships between a company's management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. It helps to define the way authority and responsibility are allocated and how corporate decisions are made.*

Moreover, Zingales (1998, p.4) cited in Khan (2011) defines Corporate Governance as

> *Corporate Governance is allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labor market competition, organizational structure, etc., can all be thought of as institutions that affect the process through which quasi-rents are distributed.*

Likewise, OECD principles of Corporate Governance (1999) defined corporate governance as:

> *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 of attaining those objectives and monitoring performance.

Having committed to the above definitions, it is important to note that ever since the first writings on the subject appeared in the academic domain, there have been many debates on the true scope and nature of corporate governance mechanisms around the world. However, this study applies the definition provided by the Basel Committee on Banking Supervision (2015) from “Banks for International Settlement”.

2.2.2. Historical Development of Corporate Governance

According to Steier (2005) quoted by Paulos (2015), the history of corporate governance starts as far back as 1612, when the world's first listed company was founded. The Dutch East Indies Company experienced many of the same problems as we still have today and whilst Adam Smith understood the issues of corporate governance in 1776, he did not use the phrase corporate governance. The academic work of Means (1932) and Coase (1937), cited in Paulos (2015), became the first writing which 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. Earl (1983) mentioned by Paulos (2015) states that, recently 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. An absence of transparency means that shareholders had no knowledge what directors 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.

As stated by Paulos (2015), the connection between corporate governance and principal-agent problems is further emphasized by (Farrar, 1999) in the article, “A Brief Thematic History of Corporate Governance Bond Law Review “. He traces the growth of corporate governance with the arrival of managerial capitalism and the requirement to increase of capital from the public. Farrar’s view is that in the lack of a countervailing power, management has a propensity to

follow own self-interest at the expense of the corporation. There is a want then to monitor administration to avoid shirking and other opportunistic behavior. Lawrence D Brown (2004) cited in Paulos (2015) forward that the corporate governance issues were measured by both fiduciary chains developed in the law and accompanied by legislation so that modern directors' duties are a mixture of law, equity and statute. The market for corporate control plunders good performance but judges' under-performance with either falling share price as investors.

Nevertheless, as we move into this new age, we must not overlook the historical meaning of property to the expansion of the Rule of Law and the modern system of democracy. Both of these may be under threat by globalization. The history of corporate governance displays a history of transformation and adaptation to change but the contemporary victory of democracy and capitalism. (Farrar, 1999)

2.2.3. Corporate Governance Principles and Practices

2.2.3.1. Board's Responsibilities

In many countries shareholders have a central role in appointing board of directors. Shareholders believe that appointed board and senior managers will act in their interests. Senior managers are responsible of directing; planning and controlling work and take corrective actions necessary. They should manage risk, have appropriate control systems, provide accurate information and act ethically. Shareholders place their trust in board's decisions in supervising senior manager's actions and proficiency (Zerban, 2017). In this view, the main responsibility of governing a company is upon the Board of Directors and, therefore, attention must be paid to their roles and responsibilities. The roles of the Board of Directors and shareholders are interactive and, therefore, the quality of governance depends upon the level of interface set up by them. The boards are accountable in many ways to the shareholders and stakeholders of a company. The directors are required to attain a balance between competing interests of shareholders, customers, lenders, promoters and directors. Preferably, the board should be the heart and soul of a company. Whether or not, the company grows or declines, depends upon the sense of purpose and direction, the values, the will to generate stakeholders' satisfaction and the drive to achieve them. (Jan, 2016)

According to the Basel Committee on Bank Supervision (2015), the board has ultimate responsibility on the bank's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations. The board may delegate some of its functions, though not its responsibilities, to board committees where appropriate. The board should establish and be satisfied with the bank's organizational structure. This will enable the board and senior management to carry out their responsibilities and facilitate effective decision-making and good governance. This includes clearly laying out the key responsibilities and authorities of the board itself and senior management as well as those responsible for the risk management and control functions.

Furthermore, the board should: actively engage in the affairs of the bank and keep up with material changes in the bank's business and the external environment; oversee the development of and approve the bank's business objectives and strategy and monitor their implementation; oversee implementation of the bank's governance framework and periodically review that it remains appropriate in the light of material changes; establish, along with senior management and the CRO, the bank's risk appetite, taking into account the competitive and regulatory landscape and the bank's long-term interests, risk exposure and ability to manage risk effectively; approve the annual financial statements and require a periodic independent review of critical areas; and approve the selection and oversee the performance of the CEO, key members of senior management and heads of the control functions (Basel Committee on Banking Supervision, 2015).

2.2.3.2. Board Qualification and Composition

Applications of top practice of the governance systems will worth very little if a firm do not have the right people on the board with the right skills, education and experience along with allowing structure. According to Abdurazak (2017), Educational Qualification refers to Board Capability of distinct board members. Experiences of individual board members are significant for decision making. Board members with advanced qualifications help the corporations through a mix of competencies and abilities which aids in forming varied views to decision making. Existence of additional qualified members would spread knowledge base, arouse board members to reflect other substitutes and improve a more considerate dealing out of problems. Gantenbein and

Volonte (2011) added that the human capital provided by the board of directors is very important given the corporate board is one of the mechanisms for overseeing the firm and it can arguably provide the knowledge needed to function in the new environment.

On the other hand, the principles of corporate governance emphasize on composition of corporate boards, even if in practice countless boards do not take this issue completely (Paulos, 2015). Board composition refers to, for instance, the number of self-governing non-executive directors on the board comparative to the total scope of directors (note that there might be other elements to be considered depending up on the respective country's governance requirement). An independent non-executive director is independent director who has no affiliation with the firm except for their directorship (Clifford and Evans 1997).

Furthermore, board independence refers to a corporate board that has a majority of independent outside directors. Compared to an insider-dominated board, an outsider-dominated board is believed to be more vigilant in monitoring managerial behaviors and decision-making of the firm. However, having an independent board alone may not be sufficient to guarantee good governance control. It is likely that some independent board members might be brought in to serve as tokens or window dressing in order to fulfil the minimum regulatory requirements. In addition, a board that consists of directors with a diverse set of functional expertise (marketing, engineering, finance, etc) industry experiences, educational qualifications, ethnic and gender mix might be better equipped to deal with a wide range of issues facing the firm and provide executives with advice and consultation from multiple perspectives (Financial Times, n.d.).

The Basel Committee on Banking Supervision (2015) suggests that the board must be suitable to carry out its responsibilities and have a composition that facilitates effective oversight. For that purpose, the board should be comprised of a sufficient number of independent directors. In addition, the board should be comprised of individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the bank.

2.2.3.3. Board Committees

Despite the central role of boards in in corporate governance, there is relatively little understanding of the internal organization of boards, specifically the structure of board

committees. Such committees are important because, as Kesner (1988) and Klein (1998) cited in Chen and Wu (2016) suggest, committee meetings, and not the board meetings, are where most board activity actually takes place. According to Agrawal and Knoeber, (1999), quoted in Hayes et.al (2004), firms establish committees for a number of reasons. For example, some committees are formed to evaluate and reward top management (e.g., compensation committee). Others exist in order to advise the CEO in his/her decisions (e.g., finance and investment committees). Another group of committees exists to ensure that the firm is in compliance with regulations and external factors (e.g., audit and environmental committees). Firms typically choose individuals with expertise to serve on one or more committees in order to help their top management.

Moreover, Basel Committee on Banking Supervision (2015) forwarded that the board should structure itself in terms of leadership, size and the use of committees so as to effectively carry out its oversight role and other responsibilities. This includes ensuring that the board has the time and means to cover all necessary subjects in sufficient depth and have a robust discussion of issues. Besides from these committees, Conflicts of interest may arise as a result of the various activities and roles of the bank. In such cases, the board should have a formal written conflicts-of-interest policy and should oversee the implementation and operation of these policies to identify potential conflicts of interest. Where these conflicts cannot be prevented, they should be properly managed (based on the permissibility of relationships or transactions under sound corporate policies consistent with national law and supervisory standards).

1. Audit Committee

According to Hermanson and Rittenberg, (2003), a great deal has been written about audit committees over the past few years. In the wake of the Enron disaster, attention on audit committees is expected to continue, and the expectations placed on audit committees are almost sure to continue to rise. In the eyes of many, the primary role of the audit committee is to monitor the financial reporting process - with the goal of helping to ensure reliable financial reporting. Activities in this area include reviewing financial statements and disclosures, assessing the organization's quality of earnings, asking tough questions of management, and assessing the risk of fraudulent financial reporting. In terms of overseeing the control system, the National Association corporate directors (2000a), as cited in Hermanson and Rittenberg, (2003), points to

assessing the “tone at the top”, ensuring that organizational risks are assessed and mitigated, and ensuring that control weaknesses are addressed by management.

Furthermore, the Basel Committee on Banking Supervision (2015) states that, an audit committee is a committee made up of entirely of independent or non-executive board members who have experience in audit practices, financial reporting and accounting. It is a distinct committee which is required for systemically important banks and is strongly recommended for other banks based on an organization’s size, risk profile or complexity. It has a responsibility of overseeing the financial reporting process, providing oversight of and interacting with the bank’s internal and external auditors, approving, or recommending to the board or shareholders for their approval, the appointment, remuneration and dismissal of external auditors and reviewing and approving the audit scope and frequency;

2. Compensation Committee

As said by Conyon (1997) cited in Keasey et.al 2005, the primary function of the compensation (or remuneration) committee is to determine the pay of the board of directors. Academic evidence on the effectiveness of this key corporate committee is sparse. This is surprising given the voluminous academic literature that has been produced on the phenomenon of executive pay (Murphy, 1999 cited in Keasey et.al 2005). As stated by Grove and Victoravich (2009), to ensure long-term positive performance, it is imperative that executive and director compensation is properly aligned with the interests of the firm. Since the compensation committee determines executive compensation, affiliated directors on the compensation committee may be under the power of top executives and thus will not set compensation in an optimal manner (e.g., focus on short-term financial performance or excessive incentive based compensation). Bicksler, (2008) and Colvin (2008) cited in Grove and Victoravich (2009) also said that the position of this argument extends to banks based on recent claims that executive compensation was a key factor underlying the subprime crisis. Hence, Grove and Victoravich (2009) propose that presence of affiliated compensation committee members to be a factor of weak corporate governance.

In addition to the above emphasis by scholars, Basel Committee on Banking Supervision (2015) states that the compensation committee is required because it is systemically important for banks. It should support the board in overseeing the remuneration system’s design and operation and in ensuring that remuneration is appropriate and consistent with the bank’s culture, long-term

business and risk appetite, performance and control environment as well as with any legal or regulatory requirements. The compensation committee should be constituted in a way that enables it to exercise competent and independent judgment on compensation policies and practices and the incentives they create. The compensation committee works closely with the bank's risk committee in evaluating the incentives created by the remuneration system. The risk committee should, without prejudice to the tasks of the compensation committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

3. Risk Management Committee

According to Paulos (2015), the chief responsibilities and obligations of the risk committee are to counsel the board on risk management; prove the benefits of a risk-based method to internal control; and strengthen control consciousness by setting suitable internal control policies, seeking consistent guarantee that the system is working, studying the efficiency of internal control, providing disclosures on internal controls in annual reports and accounts. In banking organizations, the risk committee monitors the principal risks which the bank has fronting, counting those which management may not be conscious of or may be undervaluing. Many corporations including banks either set up a separate risk committee or create the audit committee as an audit and risk committee.

Bhuiyan et.al 2017 examine the impact of risk committee on firm performance, as the existence of a stand-alone risk committee is presumed to lower the firm's overall risk of failure and, thus, increase firm performance. In fact, a large body of accounting and finance literature suggests that an improvement in risk management activities improves firm performance. Furthermore, the firms with an efficient risk management system are likely to avoid unnecessary risks. Hence, it is suggested that having a stand-alone risk committee increases the value of a firm, as it is regarded as an indicator of good corporate governance and efficient risk management of the firm's risk-related activities.

Additionally, the Basel Committee on Banking Supervision (2015) forwarded that the risk committee of the board is responsible for advising the board on the bank's overall current and future risk appetite, overseeing senior management's implementation of the RAS (risk appetite statement), reporting on the state of risk culture in the bank, and interacting with and overseeing

the CRO (Chief Risk Officer). Moreover, there should be effective communication and coordination between the audit committee and the risk committee to facilitate the exchange of information and effective coverage of all risks, including emerging risks, and any needed adjustments to the risk governance framework of the bank.

4. <u>Nomination\Appointment Committee</u>

According to Ammari et.al 2016, the role of nomination committee is to identify, evaluate, nominate a new director on board, and also facilitate the selection of new directors by shareholders. Similarly, an effective nomination committee needs to ensure the appointment of board members whose interests are aligned with those of the shareholders. Furthermore, the nomination committee is of importance to ensure that the directors are well-chosen, so that they can increase the value of the firm.

The contemporary influence of the CEO in the nominating process is difficult to assess in the absence of studies comparable to those conducted in the late 1980s, but it is clear that CEO's may have the dominant voice in the nominating process even if not included in the membership of a nominating committees composed of independent directors (Murphy (2008). CEO involvement in the director nomination process has been shown to have a significant impact on the types of directors that appointed to boards. When CEOs either participate directly in the selection of new board appointees or serve on the nominating committee, or when no nominating committee exists, companies tend to appoint fewer independent outside directors and more affiliated outside directors with potential conflicts of interests (Boyd, 1994).

Murphy (2008) also state that, in a minority of companies, the slowly growing movement to separate the position of CEO and Chairman of the Board may have introduced more complex patterns of interaction between the nominating committee and management, and now common practice of appointing a "lead director" to preside over executive sessions of the independent directors may have had somewhat the same effect. Empirical evidence, however, is lacking on how these practices affect the nominating process.

According to Basel Committee on Banking Supervision (2015), the nomination committee provides recommendations to the board for new board members and members of senior management. The nomination committee should analyse the role and responsibilities of the board

member and the knowledge, experience and competence which the role requires. Where a supervisory board or board of directors is formally separate from a management board, objectivity and independence still need to be ensured by appropriate selection of board members. The nomination committee should strive to ensure that the board is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the bank as a whole. It may be involved in assessment of board and senior management effectiveness and may be involved in overseeing the bank's personnel or human resource policies

2.2.3.4. Senior Management

According to US Federal Housing Finance agency manual (2013), senior management must have the expertise necessary to manage the day-to-day operations of the regulated entity in carrying out the strategic objectives of the board. Members of the senior management team, including the CEO, should possess certain fundamental qualities and qualifications: integrity, financial and management experience, technical competence, and character. Effective senior management must also possess and demonstrate the leadership qualities necessary to coordinate and organize resources and guide and motivate personnel to achieve the organizational objectives. Senior management must ensure that all functions are carried out in accordance with policies established by the board of directors and that the regulated entity has adequate systems in place to effectively monitor and manage risks. In addition, senior management must ensure that the regulated entity maintains internal risk controls appropriate for its size, activities, and business and that information and reporting systems produce information that is timely, accurate, and complete. The responsibilities of senior management also include maintaining an organizational structure that clearly assigns responsibility, authority, and relationships; establishing adequate performance incentives and personnel management systems; and hiring middle managers with appropriate professional skills, experience, and integrity.

From the Basel Committee on Banking Supervision (2015), the organization and procedures and decision-making of senior management should be clear and transparent and designed to promote effective management of the bank. This includes clarity on the role, authority and responsibility of the various positions within senior management, including that of the CEO. Consistent with the direction given by the board, senior management should implement business strategies, risk management systems, risk culture, processes and controls for managing the risks – both financial

and non-financial – to which the bank is exposed and concerning which it is responsible for complying with laws, regulations and internal policies.

2.2.3.5. Risk Management

While the literature on corporate governance is large and rich, significant gaps exist in the indulgent of the risk management function and how it relates to governance structures. There is an increasing literature on risk management in corporations, specifically on their hedging practices and impact on performance. Risk management function's effectiveness is measured by its ability to maximize enterprise value rather than the profitability of a single business unit. This dimension turns out to be very important in the case of large and financial institutions because risk is not centralized and sometimes is opaque. It is a one channel through which the goal of maximizing shareholder wealth can be reached because it reduces the direct and indirect cost of financial distress. Indeed, value-maximizing firms have a well-grounded concern with the risk management process. This argument is especially important for banks because: first, financial distress generates contagion and systemic risk, and, second, banks' ability to issue short term claims for funding purposes depends on its financial health. When these frictions exist, it becomes immediately clear that a strong risk management function is very relevant to the banks' business model (Ellul, 2015).

The Basel committee for Banking Supervision (2015) defines risk management function as "a function responsible for identifying, measuring, monitoring, controlling or mitigating, and reporting on risk exposures". Moreover, this function is responsible for overseeing risk-taking activities across the enterprise and should have the authority within the organization to do so. Key activities of the risk management function should include: identifying material individual, aggregate and emerging risks; assessing these risks and measuring the bank's exposure to them subject to the review and approval of the board; developing and implementing the enterprise-wide risk governance framework, which includes the bank's risk culture, risk appetite and risk limits; ongoing monitoring of the risk-taking activities and risk exposures in line with the board-approved risk appetite, risk limits and corresponding capital or liquidity needs; establishing an early warning or trigger system for breaches of the bank's risk appetite; and influencing and, when necessary, challenging decisions that give rise to material risk and reporting to senior

management and the board or risk committee on all these items, including but not limited to proposing appropriate risk-mitigating actions.

Basel committee for Banking Supervision (2015) also stress that a bank should have a CRO whose primary responsibility is overseeing the development and implementation of the bank's risk management function. This includes the ongoing strengthening of staff skills and enhancements to risk management systems, policies, processes, quantitative models and reports as necessary to ensure that the bank's risk management capabilities are sufficiently robust and effective to fully support its strategic objectives and all of its risk-taking activities. Additionally, risks should be identified, monitored and controlled on an ongoing bank-wide and individual entity basis and risk Information should be communicated to the board and senior management in a timely, accurate and understandable manner so that they are equipped to take informed decisions.

2.2.3.6. Compliance and Internal Audit

Compliance is the means by which firms adapt their behavior or the behavior of actors within the firm to a relevant universe of norms. That relevant universe of norms is important because it can include not only the legal strictures that the firm operates within but also things like reputation, internal ethics, policies, goals, and aspirational norms (Griffith et.al 2016). According to the consultative document of Basel Committee on banking supervision (2003) on compliance function of banks, the purpose of the compliance function is to assist the bank in managing its compliance risk, which can be defined as the risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice. Compliance risk is sometimes also referred to as integrity risk, because a bank's reputation is closely connected with its adherence to principles of integrity and fair dealing. Banking supervisors must be satisfied that effective compliance policies and procedures are followed and that management takes appropriate corrective action when breaches of laws, rules and standards are identified. Compliance with laws, rules and standards helps to maintain the bank's reputation with, and thus meet the expectations of, its customers, the markets and society as a whole. Although compliance with laws, rules and standards has always been important, compliance risk

management has become more formalized within the past few years and has emerged as a distinct risk management discipline.

Regarding to Internal Audit Function (IAF), Karagiorgos et.al (2010), indicates a generally accepted correlation between internal auditing and corporate governance. This affects all kinds of economic activity and the perceived implications and consequences of this interaction have changed considerably in the recent years. Internal auditing and corporate governance have now become a matter of major public concern. In this concept, international guidelines perceive that effective cooperation of corporate governance and internal auditing improves performance, and is a source of competitive advantage. The contribution of internal auditing to corporate governance is depicted via demarcating the relationship between internal audit and key elements of corporate governance. Internal auditing, on the one hand, contribute to corporate governance by: bringing best practice ideas about internal controls and risk management processes to the audit committee; providind information about any fraudulent activities or irregularities (Rezaee and Lander, 1993 cited in Karagiorgos et.al (2010)) and conducting annual audits and reporting the results to the audit committee and encouraging audit committee to conduct periodic reviews of its. On the other hand, an effective audit committee strengthens the position of the internal audit function by providing an independent and supportive environment and reviews the effectiveness of the internal audit function.

According to Basel Committee on Banking Supervision (2015), an independent compliance function is a key component of the bank's second line of defense. This function is responsible for, among other things, ensuring that the bank operates with integrity and in compliance with applicable, laws, regulations and internal policies. The bank's senior management is responsible for establishing a compliance policy that contains the basic principles to be approved by the board and explains the main processes by which compliance risks are to be identified and managed through all levels of the organization. On the other hand, an effective and efficient internal audit function constitutes the third line of defense in the system of internal control. It provides an independent assurance to the board of directors and senior management on the quality and effectiveness of a bank's internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their organization and its reputation. The internal audit function should have a clear mandate, be accountable to the

board and be independent of the audited activities. It should have sufficient standing, skills, resources and authority within the bank to enable the auditors to carry out their assignments effectively and objectively.

2.2.3.7. Compensation

1. <u>Executive Compensation</u>

As stated in Bruce et.al (2005), Academic enquiry into the nature and impact of executive remuneration has been fuelled by interest from a variety of sources. Shareholders and their representative bodies, the business community in general, trades unions, government and the media have all, for a variety of reasons, shown a keen interest in understanding what determines the structures and levels of executive pay and how those structures and levels relate to corporate performance and the welfare of the wider community of corporate stakeholders. Much of the curiosity surrounding executive pay relates to its butterfly-like potential to either promote more robust governance and stronger corporate performance via the alignment of stakeholder interests or drive further a supposed wedge between the interests of the executive elite and other stakeholders.

According to Mallin (2010) cited in Neokleous (n.d.), Executive compensation could take various forms: base salary, bonus, stock options, restricted share plans (stock grants), pension and other benefits (car, healthcare etc.). Base salary is the standard remuneration that an executive receives in terms of his/her contract with the company and it is not related to company's or executives' performance Furthermore, additional benefits through long-term incentive contracts in terms of stock options and restricted share plans (stock grants) can be provided to executives. In stock options, executives have the right to purchase shares (stock) at a specified exercise price over a specified time period. As contracts, if their price rises above the exercise price, the executive will achieve profits taken from the related difference of the two prices.

2. <u>Directors Compensation</u>

Robin & Hoi (2004) define director compensation as the use of stock, stock option, and other equity-based compensation as an integral part of the director's compensation package. According to him, providing financial incentives to directors can encourage desirable behavior such as active monitoring of managerial decisions. In addition companies' should enable directors to

build initial equity by compensating them with equity based instrument in terms of the usual annual cash retainer. These sequential actions will encourage directors to accumulate significant equity over time and generate ownership exposure. With such complementary steps, director compensation can be an effective tool to align the interest of directors and shareholders. In the 1995 Blue Ribbon Commission on Direct Compensation, the National Association of Corporate Directors proposes that directors should be paid solely in the form of stock and cash- with equity representing a substantial portion of the total up to 100%.

In general the Basel Committee for bank supervision (2015) set out principles that determine the compensation system in corporate governance. According to it, it is a system through which the board and senior management promote good performance, convey acceptable risk-taking behavior and reinforce the bank's operating and risk culture. The board (or, by delegation, its compensation committee) is responsible for the overall oversight of management's implementation of the remuneration system for the entire bank. In addition, the board or its committee should regularly monitor and review outcomes to assess whether the bank-wide remuneration system is creating the desired incentives for managing risk, capital and liquidity. The board or subcommittee should review the remuneration plans, processes and outcomes at least annually.

2.2.3.8. The Role of Regulators

According to Alexander (2006), bank regulation should seek to balance the interests of shareholders with management creditors, depositors, and other stakeholder interests in order to achieve the overall objective of financial stability. Specifically, the regulator has the primary role to play in devising standards of corporate governance for banks and financial institutions because of the externality risk that banks pose to the broader economy and the unique role of the regulator in assessing and managing bank risk-taking. An efficient corporate governance framework should rely less on a strict application of statutory codes and regulatory standards, and more on the design of flexible, internal compliance programs that fit the particular risk level and nature of the bank's business.

To accomplish this, the regulator should play an active role with bank management in designing internal control systems and risk management practices that seek to achieve an optimal level of protection for shareholders, creditors, customers, and the broader economy. The regulator

essentially steps into the shoes of these various stakeholder groups to assert stakeholder interests while ensuring that the bank's governance practices do not undermine the broader goals of macroeconomic growth and financial stability. The proactive role of the regulator is considered necessary because of the special risk that banks and financial firms pose to the broader economy. It would be too extreme to describe financial regulation as a substitute for corporate governance practices — it would be more accurate to describe its role as reducing the collective-action problem in representing broader stakeholder interests in the economy to ensure that adequate governance standards are adopted to mitigate the social costs of bank risk-taking (Alexander, 2006).

As stated in Basel Committee on Banking Supervision (2015), the board and senior management are primarily responsible for the governance of the bank, and supervisors should assess their performance in this regard. To this end, Supervisors has the responsibility to perform: Guidance on expectation of sound corporate governance; make comprehensive evaluation of banks' corporate governance; make regular interaction with directors and senior managers; Recommend the required improvement and remedial action by the bank; and make cooperation and sharing of relevant information with other supervisors.

2.2.3.9. Disclosure and Transparency

The importance of transparency and disclosure is pertinent to the corporate governance practices of companies in executing their duties to, and protection of, investors, minority shareholder, creditors and all other stakeholders. High levels of transparency and disclosure are encouraged, and are important for doing business successfully. These practices can only assist to help develop and regain the confidence that has been lost in corporations and the economic system (Weekes-Marshall, 2014). According to Borgia (2005), a corporation's board of directors bears direct responsibility for creating a culture of disclosure and transparency. Truly independent boards establish policies that ensure and reward transparency. They diligently monitor implementation, decisively intervene to ensure completeness, ensure that facts are not obscured and that conflicts of interest are eliminated. Senior management's responsibility is to create the programs and processes to see that these policies are properly executed. In best practice, corporation's top leaders are diligently committed to a culture of transparency. Not given to edicts from the top or just mechanical processes of auditing, accountability permeates the corporation and real

commitments are made for collaboration and sharing information. Leaders create programs and processes that institutionalize transparency and make it an essential function and trait of the corporation.

Banks practice discloser and transparency by making both financial and non-financial discloser to their stakeholders. According to Baijal (n.d.), the financial reporting standard on the basis of which the financial information is prepared and reported determines the quality of financial disclosure. In most circumstances, the financial reporting standards required for corporate reporting are contained in the Generally Accepted Accounting Principles (GAAP. The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board also provide a widely recognized benchmarks in this respect. In regard to non-financial discloser, Chester and woofter (2005) specify that the main purpose of these non-financial reports has been to provide stakeholders with information on the state of the company (a systems tool) and to help explain the complexity of the company (a capacity tool). Most of this non-financial disclosure has been done under the banner of CSR reports, sustainability reports, corporate citizenship reports, and environment, health, and safety reports.

The Basel Committee on Banking Supervision (2015), regarding the issue of disclosure and transparency state that banks should follow the OECD principle in prating disclosure and transparency. Disclosure should include, but not be limited to, material information on the bank's objectives, organizational and governance structures and policies (in particular, the content of any corporate governance or remuneration code or policy and the process by which it is implemented) and major share ownership and voting rights, and related party transactions. In particular, an annual report on compensation should be disclosed to the public. It should include: the decision-making process used to determine the bank-wide compensation policy; the most important design characteristics of the compensation system, including the criteria used for performance measurement and risk adjustment; and aggregate quantitative information on remuneration. In addition, the bank should also disclose key points concerning its risk exposures and risk management strategies without breaching necessary confidentiality.

2.2.4. Factors Affecting Corporate Governance in Banking Sector

1. The Size of a Board

   According to Kiel and Nicholson (2003) as cited in Yenesew, (2012), board size is vital to attaining the board success and better firm performance. Moreover, as stated by Lawal (2012) quoted in Yenesew, (2012), size of the board affects the excellence of discussion among members and capability of board to reach at an ideal corporate decisions. Therefore, finding the suitable board size is important since size can be harmful to corporate governance effectiveness beyond ideal level. However, defining a best size of the board has existed a continuing and provocative debate in corporate governance literature. 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.

2. The positive relation between Shareholders, Senior Management and the Board

   The shareholders, employees and other stakeholders of the company have a combined interest in the organization, they are always been capable to adjust with the changing demands allowing the company to be more adjusting according to the changing demands. Positive interaction between shareholders, board of directors and management is therefore necessary for better corporate governance. Shareholders exercise their influence in general meetings, so they should appropriately use their right for the better decision of the company. Good corporate governance depends on the ideas which make it convenient for the board of directors to enter into a discussion with the management of the company. This can only be done if the boards of directors as well as all the shareholders are well informed about company situation and the annual general meeting provides a platform for the communication and the discussion of all the shareholders (Akram et.al 2014).

3. Existence of strong and competent boards and a pool of professional senior management

   According to Adams & Ferreira (2007) cited in Maingi (2016), the quality of board members will positively contribute to management decisions, which will then be translated into the firm's performance. In addition, Kim & Lim (2010) quoted in Maingi

(2016) state that board members thus need management knowledge in marketing, finance, legal issues accounting and other related areas. Wincent, Anokhin and Ortqvist (2010) mentioned in Maingi (2016) forwarded that Education can have a positive impact on the quality of decisions made by a board. The total number of degrees on a particular board has a positive impact on the company performance. However, Daily and Dalton (1994) cited in Maingi (2016) found that educational background can have no impact on a firm's value.

4. The diversification of Board of Directors

According to Mattis, (2000) and Daily & Dalton, (2003) cited in Bathulah (2008), the concept of board diversity suggests that boards should reflect the structure of the society and appropriately represent the gender, ethnicity and professional backgrounds. Boards are concerned with having right composition to provide diverse perspectives (Milliken & Martins, 1996; Biggins, 1999). Board diversity is supported on the ground of moral obligation to shareholders, stakeholders, and corporate philanthropy for commercial reasons. However, diversity should not only ensure equitable representation but also provide for an expression of broadening the principle of merit. In a recent study, Smith and Verner (2006) quoted in Bathulah (2008) found that women on board of directors have significant positive effect on firm performance. With most of them having non-corporate background, women are far more likely to hold valuable, unique, and rare information because they have been excluded from the traditional development paths of corporate directorships. Letendre (2004) mentioned in Bathulah (2008) brings up the idea of 'value in diversity' and suggests that female board members will bring diverse viewpoints to the boardroom and will provoke lively boardroom discussions.

5. The imposition and implementation of global regulatory reforms

While the reforms are well-intended, the complexity and impact of the reforms to business should not be underestimated. Increasingly, there seems to be a trend on the "extraterritorial" application of laws and regulatory requirements, which have implications on other jurisdictions. The extraterritorial effect of such laws may require changes to existing practices and may involve substantial costs in terms of system change and improving monitoring capabilities. At the board and senior management levels, an

adequate understanding of the potential impact of these trends and regulatory changes is critical to help the organization in setting business priorities while ensuring full compliance with emerging regulatory requirements (Ibrahim, 2014).

6. The increase on complexity of the operations of financial institutions and financial groups.

   Financial institutions are becoming larger and more complex as they grow in size and expand abroad. The oversight of financial groups with cross border operations is more complex and demanding, as groups have a highly diverse range of businesses, products and services, and diversified clientele bases. Managing people with different cultures will be an additional challenge. In some instances, the board and management will also have to deal with increased and sometimes conflicting regulatory and legal requirements across the different jurisdictions. For such financial groups, the lines of accountability and reporting must be clearly established to avoid the business becoming "too-big-to-manage". A more diverse board reflecting the financial group's cross border presence might also be necessary. As the operating environment becomes more complex, it is not an impossibility that sometime in the near future there would be a demand for "professional directors" (Ibrahim, 2014).

7. Strategic planning and Performance

   According to Kinross (2012) cited in Akram et.al (2014), strategic planning and performance is central for a corporation to make critical decisions and is the base for the operating planning. It affects corporate governance that if one has good strategic planning then its corporate governance might be more effective. Board of Directors should understand the need of strategic planning in corporate governance. Its failure can lead to disagreements between the Board and the CEO.

2.2.5. Challenges of Corporate Governance in Banking Sector

Unlike other industries, the financial sector plays an important intermediary role that relies heavily on public trust and confidence. Being highly visible entities, any lapse or failure in the governance of financial institutions, whether real or perceived, would attract adverse public reaction and could severely affect their reputation and public confidence. The failure of a

systematically important financial institution may also result in serious ramifications and costs to the economy, given their roles and inter-linkages within a country's economy. For this reason, especially in the conduct its business operations, financial institutions are subjected to a higher standard of integrity and professionalism. In recognition of this, statutory responsibility is entrusted to the board and senior management to steer the institution and to safeguard its safety, integrity and reputation at all times. As public interest entities, actions by financial institutions have far reaching implications for a wide range of stakeholders (Ibrahim, 2014).

The governance of institutions remains a complex subject despite the many advancements that have been made over the years. This complexity stems from the highly dynamic and constantly evolving nature of the financial system. Financial institutions occupy a unique position in any economy. This uniqueness requires financial institutions to balance between growth, profitability and innovation, and the long-run stability of institutions. It is also this unique position that may create a moral hazard where financial institutions are incentivized to take excessive risks on the expectation that the cost of failure would be borne by a third party, for example through government bail outs or through the concept of "bail-in". This state of affairs, if not managed appropriately, would burden the taxpayers and increase the dissatisfaction of the general public with the industry (Ibrahim, 2014).

The Following are some of the challenges of corporate governance in financial sector forwarded by Ibrahim (2014):

- Board’s reluctance in approving and overseeing management’s implementation of the bank’s strategic objectives, governance framework and risk management.
- Lack of corporate culture that reinforce appropriate norms for responsible and ethical behavior.
- Lack of professional competency from board members to understand their corporate governance role.
- Reluctance of senior management to carry out and manage the bank’s activities approved by the board.
- Poor communication of information between the board and senior management in a timely and accurate and manner.

- Mismatch of remuneration structure with the bank's overall corporate governance and risk management.
- Lack of timely and accurate disclosure of all material matters regarding the corporation and governance of the bank.

2.2.6. Overview of Ethiopian Commercial Banks Corporate Directive

The Bank corporate governance directive composed of articles related with general requirements, board of directors, shareholders, Chief Executive officer, Meeting and disclosure have been approved by the council of Ministers and became operational effective September 21, 2015. The following articles are reviewed from directive number SBB/65/2015.

Article 5 - The board of a bank shall comprise non influential shareholders whose numbers shall not be less than: one third of the total board members elected separately by such shareholders provided that such shareholders hold at least 30% and above of the subscribed share capital of the bank; or one fourth of the total board members elected separately by such shareholders provided that such shareholders less than 30% of the subscribed share capital of the bank no matter what the proportion of their shareholding in the bank.

Article 6 - General meeting of Shareholders: Establish nomination committee by shareholders from shareholders, composed of not less than five shareholders that is accountable to it, independent from the board of the bank, and shall not have a seat on the board of the bank. At least two of nomination committee members no matter what the committee's size is, shall be non-influential shareholders.

Article 7 - Representing by a voter in person and by proxy in any shareholders meeting shall be limited to the aggregate, including the voter's own shares, of a maximum of 10% of the subscribed share capital of a bank.

2.3. Review of Empirical Literature

According to a detail review made, several scholarly works has been done by different researches and academic students on corporate governance in the banking sector. Chilumuri (2013) wrote a journal with the purpose of evaluating the practice of corporate governance in state of bank of India with a particular focus on the country's largest commercial bank. In order

to do that, he took board practices, stakeholder's service and discloser and transparency of information as a variable of measurement. Based on his finding, the State of bank of India is implementing all the provisions of corporate governance according to the RBI directions. In terms of boards practice and disclosure of information, the state of bank of India conducts different board meetings regularly to provide effective leadership on functional matters and to monitor banks performance. Moreover, it is found that the state of bank of India established clear documentation and transparent management processes for policy development, implementation, decision-making, monitoring, control and reporting.

Concerning to stakeholders service, the state is performing well in terms of increasing the e-banking service customer accounts and engagement in social service activities. However, Chilumuri (2013), points out that there are some drawbacks that hinder the good performance of the bank and implementation of the corporate governance provisions. These include ineffectiveness of customer service committee, poor risk management and poor internal control system. Finally, he suggests that the corporate governance practice in the State Bank of India should improve for best investment policies, appropriate internal control systems, better credit risk management, better customer service and adequate automation in order to achieve excellence, transparency and maximization of stakeholder's value and wealth.

Al-Hawary (2011) studied the effect of corporate governance on the performance of Jordanian Commercial banks by taking board size, CEO duality, percentage of non-executive directors, capital adequacy, the ownership percentage of large shareholders, and the ownership percentage of the largest shareholder as governance mechanism. He used Tobin's Q Model to measure their effect in banks performance. According to his results, CEO duality, and percentage of non-executive directors had statistically significant positive effect on performance; whereas leverage had statistically significant negative effect on performance. Finally, he concludes that CEO duality, percentage of non-executive directors, ownership concentration, and capital adequacy are known as effective factors on banks' performance. Furthermore, Tandelilin et.al (2007) broadly examined the association between corporate governance, risk management, and bank performance in Indonesian banking sector. They used capital adequacy ratio to measure external corporate practice; value at risk to measure risk management and return on equity and net profit margin to measure bank performance. According to their findings, the type of bank ownership is

highly affected by the relationship between corporate governance and risk management and between corporate governance and bank performance. In addition, risk management has significant influence on bank performance, and vice versa.

When we come to Ethiopian Context, an article written by Asnakech (2013) tried to assess the basic features of banks' corporate governance in Ethiopia that contribute to its poor performance and forwarded the legal and policy changes which need to be made to tackle these problems. She also tried to examine the operation of some selected private banks in light of various aspects of corporate governance. According to her result, the blending of politics and business, absence of share markets, inadequate shareholder protection laws, and ineffective court system are the standout problematic issue of corporate governance in Ethiopian banking sector. Moreover, a board filled with an atmosphere of challenge; sound risk management systems, and a competitive environment among banks, are governance mechanisms that enhance financial value of Ethiopian private banks.

Yohannes (2016) discusses the effect of newly introduced corporate governance policy and corporate governance mechanisms on the performance of private commercial banks of Ethiopian by taking both the agency and stakeholder theories along with the corporate governance policy as a theoretical framework. According to his study, board composition, minority report, board committee structure and corporate disclosure have a significant effect on private commercial banks performance and such significance has not been altered by the newly introduced corporate governance policy. In addition, he states there exist a convergence between the results of the study and assumptions made by the policy, which main purpose was to implant the good corporate governance practices and culture in the private banks without compromising the interests of the shareholders and various stakeholders and without affecting their performance negatively.

Both Alem (2011) and Paulos (2015) tried to study the extent of applicability of the OECD and Basel committee of principles of corporate governance in private commercial banks of Ethiopia. Alem (2011) discusses the application of OECD principles in corporate governance framework of Lion International bank S.C. by focusing on board responsibilities, right of shareholders and stakeholders, disclosure practices and efficiency and effectiveness of the board. According to her, the bank applies the OECD principles in terms of the board fulfilling their responsibilities

and ensuring the rights of shareholders and stockholders. However, there are some problems in regard to ensuring efficiency and effectiveness of the board and disclosure of material information.

Paulos (2015) also emphasize on the application of both OECD and Basel principles in the form of board of directors, level of shareholders' right, risk management and internal audit, regulatory role, role of executive management and disclosure and transparency practice in eight private banks. His findings indicated that the overall practices of such factors are highly tightened by the existing laws, proclamation and NBE directives. Hence, there is no enough room for private bank to effectively apply these principles on selected variables. He also stress that supervisory organ and the government needs to work hard in adopting best practices into the legal system of the country and enforce its implementation in order to boost good corporate governance practice with in the banking sector.

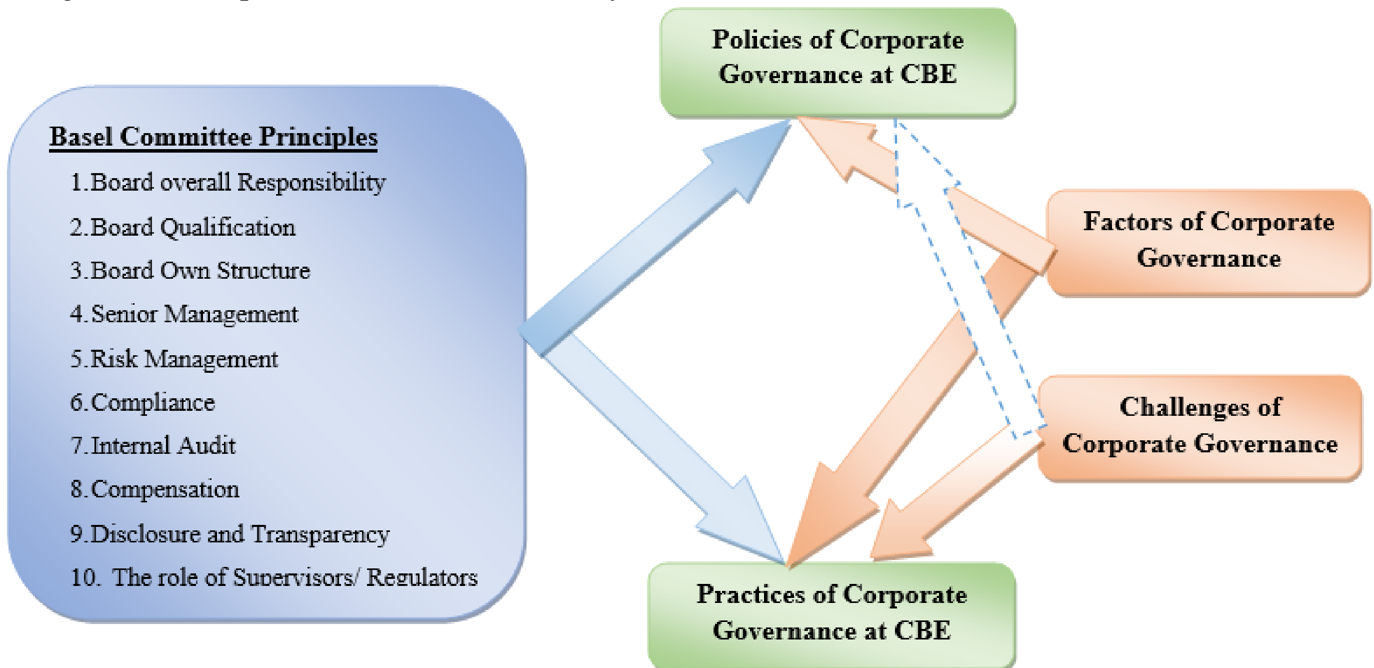
Abraham (2011) underlines the quality of internal audit function on the effectiveness of corporate governance and he conduct a research on 13 selected private commercial banks by applying a concurrent mixed research approach. According to him the current quality of IAF in terms of its attributes and has no positive impact on the effectiveness of corporate governance. Hence he suggest that Internal Audit function needs to enhance the proficiency (or attributes of IAF such as; training, experience and professional certification) so as to foster the quality of IAF and in turn to has positive impact on the corporate governance effectiveness. The reason is that audit quality significantly influences audit effectiveness and when IA is effective, it has positive impact on the quality of corporate governance.

The major gaps between this research and the revised studies are; these studies focused on the practices of corporate governance mechanisms on banks performance and solely based on the earliest publications of Basel committee principles of corporate governance. Furthermore, they had been undertaken by considering only the private commercial banks of Ethiopia. Therefore the researcher believes that these gaps will be filled by conducting this research at a wider scale with the consideration of corporate governance principles and best practices endorsed by Basel Committee in recent years and by considering state-owned bank in the research.

2.4. Conceptual Framework

The literature written by different scholars associated with corporate governance is very broad in terms its relationship with different field of studies and it's concerning nature around the world. Hence, setting out an appropriate conceptual frame work is necessary to narrow the scope and support the theoretical and empirical literatures reviewed earlier. The back bone of this study is the Basel committee principles published as a guideline at 2015 by International settlement for banks and best practices endorsed by this committee. The focus of this study is to assess the application of such international principles on the policies and practices of Commercial Bank of Ethiopia and the factors and challenges that affect the current practice of corporate governance in the bank. To do that, the researcher extract the ten principles stated on the Basel Committee principles of corporate Governance (2015) and make an in-depth literature review written by different scholars in relation to the principles. In addition, the principals by themselves are reviewed in detailed manner at each sections of the literature. The review also incorporates some factors and challenges stated by different scholars that could affect the practice of corporate governance in banking sector. The diagrammatic representation of the conceptual framework of the study is shown below:

Figure 1: Conceptual Framework of the Study



Source: Own Design, May 2018

CHAPTER THREE

RESEARCH DESIGN AND METHOGOLOGY

3.1. Introduction

This chapter deals with the research design and methodology used at the time of conducting the study. It includes the research design and strategy, sample and sampling technique, source, tools and procedure of data collection tools, methods of data analysis, validity and reliability test of the instrument used and the code of ethics considered while conducting the research. It is presented under the following sections.

3.2. Research Design

According to Saunders, Lewis & Thornhill (2007), the research questions inform the choice of research strategy, the choices of collection techniques and analysis procedures, and the time horizon over which the research work is undertaken. Similarly, Singh (2006), states that the selection of research design and strategy is done keeping in line with the objectives of the research. Hence, a research design is a general plan how the researcher goes about answering the research question(s). In this view, there are many research designs applicable in different discipline with different purposes. Among these designs, descriptive research design is the most commonly used type of design (Kothari, 2004).

The major purpose of descriptive research design is description of the state of affairs as it exists at present (Kothari, 2004). Furthermore, Willman (2011) confirmed that descriptive research studies are those studies, which main purpose is to describe the characteristics of a particular individual, or a group. It is concerned with the present and attempts to determine the status of the phenomena under investigation (Singh, 2006). In addition, Shohamy and Seiliger (1989) and McDonough (1997) cited in Alem (2011) stated that descriptive study is helpful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture.

Based on this, this researcher used a descriptive research design for the study, as it is suitable to arrange conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). It has helped to examine the policies and practices of corporate governance at Commercial Bank of Ethiopia based on

international practices and principles. The research questions, which are presented in the introductory chapter of this report, were addressed through descriptive research design. This is also supported by the fact that other researchers (Belayneh, 2014; Paulos, 2015 and Alem 2011) had adopted this type of research design in addressing their research objectives.

In addition to this, the researcher had employed a cross-sectional research strategy for the purpose of this study. This research strategy addressed the researcher's need to document facts at a single moment in time in the study area. It had helped the researcher to obtain information from a single group of respondents at a single point in time without any attempt to follow-up over time. In executing a cross-sectional study, the researcher can ask a series of questions (e.g., via a survey) of a broad cross-section of people in order to address the topic of interest (Ruane, 2005).

3.3. Sample and Sampling Techniques

3.3.1. Target Population

The population of this study included Executive and Middle-Level managers at the Head Office and Branch Managers of Commercial Bank of Ethiopia (CBE) in Addis Ababa region. The bank was selected purposively based on its seniority, better financial performance and with the intention of filling the research gap in Ethiopian context. According to the data gathered from CBE, Head Office, the bank has 13 Executive Managers and 118 Middle-Level Managers in the Head Office. Moreover, it has 261 Branches within the Addis Ababa region. Therefore, the total number of population was 131 Managers of CBE at the head office and 261 Branches in Addis Ababa region.

3.3.2. Sampling Techniques

Sampling techniques that had been used to select sample elements from target population were purposive sampling technique and simple random sampling. Simple random sampling had been used to select a sample of Middle-Level Managers at the head office based on their total sample size. For administering an interview, four Executive Managers and Branch Managers were selected purposively. The rationale behind including Branch managers for this study was to include lower level managers and use the knowledge and experience they have on the subject matter of the study. Moreover, based on the data gathered from CBE, the four Executive Managers were selected on the basis of their direct relationship with the development and implementation of governance framework of the bank.

From the total branches in Addis Ababa region, 3 branches (Finfine Branch, Mexico Branch and Addis Ababa Branch) and hence, 3 Branch Managers were taken for the purpose of this study. These branches were selected purposively based on their weight of financial transaction and the revenue they generate to the bank at Addis Ababa Region. According to the data gathered from CBE, the Finfine Branch, Mexico Branch and Addis Ababa Branch are the three branches which involve huge transactions in day to day basis and generate a large figure of revenue annually. Hence, the bank labeled them as "Grade 4" branches within Addis Ababa region. Regarding the Middle-Level Managers at the Head Office, from 118 Middle-Level Managers, 92 was taken as a sample. The sample size was determined based on the formula proposed by Yamane (1967) cited in Israel (1992) for determining needed sample size by taking the level of precision, confidence level and degree of variability as a determinant criteria. The formula is stated as:

$$n = \frac{N}{1 + N(e)^2}$$

Where: n = required sample size; N = the population size; and e = the level of precision (0.05) at 95% confidence level and p = 0.5 (the estimated proportion of an attribute that is present in the population).

By applying the formula:

$$n = \frac{118}{1 + 118\,(0.05)^2} = \text{92 Middle-Level Managers}$$

3.4. Sources and Tools of Data Collection

According to Kothari (2004), when a researcher decides about the source and method of data collection for any study, it is always important to keep in mind two types of data: Primary data and Secondary data. The primary data are data which are collected for the first time and has a character of originality. On the other side, the secondary data are data collected before and statistically processed previously for different purposes.

This study used both primary and secondary source of data. The primary data source was the first hand data collected from Executive and Middle-Level Managers at the Head Office and Branch Managers from the three branches. The secondary data source were corporate governance policy manual of international banks, Basel committee reports, corporate governance best practice

reports, related books, journals and newspapers. However, as it is stated in the limitation part of chapter one, the researcher couldn't use the corporate governance policy manual of the bank as a secondary source of data due to lack of cooperation and unwillingness of the concerned body within the bank.

Instruments such as questionnaire and interview were used to collect primary data. The questionnaire was structured with both open-ended and cloth-ended and it was administered on Middle-Level Managers of the bank at the Head Office. Additionally, a semi-structured interview was conducted with Executive Managers, and Branch Managers of the bank. Secondary data was collected with a reference to the reports, international banks' policy manuals, books, journals and other related materials.

3.5. Procedures of Data Collection

Before engaging in collection of data, the researcher made a pilot test to check the validity and reliability of measurement instruments used. Moreover, the researcher made preliminary assessment about the availability of targeted samples and set a formal appointment for distributing questionnaire and conducting interview. The interview was assumed to take 15-20 minutes and it was notified to the target key informants. Then, the researcher distributed the questionnaire and conducted a semi-structured interview with the respective key informants at the scheduled time and date. This was performed on the workplace of target samples and at their convenient times. Lastly, the researcher collected the distributed questionnaires and feed the raw data to SPSS software for analysis and interpretation purpose.

3.6. Methods of Data Analysis

As stated in Singh (2006), Academic researchers need to have abilities to make a probability or logical inference that ensures the acceptance of their testable hypothesis. Hence, the application of inductive and deductive logic to the research process is called analysis and interpretation of data in any inquiry. The process starts by classifying the data into groups and subgroups and blending the data in a way that gives new principles or generalizations. Creswell (2014) stated that, data analysis in qualitative research will proceed hand-in-hand with other parts of developing the qualitative study, namely, the data collection and the write-up of findings. While interviews are going on, for example, researchers may be analyzing an interview collected

earlier, writing memos that may ultimately be included as a narrative in the final report, and organizing the structure of the final report.

According to Sing (2006), Descriptive statistical analysis is concerned with numerical description of a particular group observed and any similarity to those outside the group, which cannot be taken for granted. He further states that, such process involves calculating frequency distribution usually in percentages of items under study, percentiles and percentile ranks, measures of central tendency (mean, median and mode) and measures of dispersion (standard deviation mean deviation, quartile deviation and range). Creswell (2014) also stated that descriptive analysis is concerned with how the description and themes will be represented in the qualitative narrative and what lessons learned from the findings of the inquiry. These lessons could be the researcher's personal interpretation, couched in the understanding that the inquirer brings to the study from a personal culture, history, and experiences. It could also be a meaning derived from comparing the findings with information gathered from the literature or theories. In this way, authors suggest that the findings confirm past information or diverge from it.

Based on the above literature, the data collected through questionnaire, under this study, was analyzed using descriptive statistical tools such as percentage, mean, median , standard deviation and frequency distribution with the support of SPSS (Statistical package for Social Science) software. Moreover, data collected through open-ended questions and interviews was analyzed through document review and content analysis. The results obtained were presented together in a narration form with a reference to literature reviews and previously conducted researches.

3.7. Validity of the Instrument

As stated in Kothari (2004), Validity is an important measurement of error and determines to what extent the instrument measures what is required to measure. i.e., it determines whether the instrument shows true variation among those variations being tested. He also state that validity of an instrument can be measured by checking Content validity, Criterion-based validity and concurrent validity. In this study, the researcher measures content validity by making sure the instrument provides adequate coverage of the topic under study and obtains grammatically well organized. Moreover, the researcher measures criterion-based validity by: checking its relevance (through the inclusion of proper measurements of corporate governance practice and policies

from Basel committee on Banking Supervision (2015)); guaranteeing its freedom of bias through an inspection of each subject get equal chance to score well; testing its reliability by making sure higher level of consistency was reached; and by assuring the availability of information that can support the content of the instrument.

3.8. Reliability Test

Before the actual data analysis was made, the study has checked the reliability of the data collection instrument. The reliability among the multiple measures of the variables that comprise this study was measured using Cronbach Alpha coefficient generated by statistical SPSS. Cronbach's Alpha is a measure of internal consistency of questions within the questionnaire and checks if the questions of the questionnaire were understood and if the data are reliable for analysis (Travakol & Dennick, 2011). Accordingly, Cronbach Alpha test was conducted to check the consistency of the questions and the reliability statistics was 0.874. This implies that there was a higher level of consistency of the questionnaire in measuring all the variables of the study.

Table 1: Reliability Test

Cronbach's alpha	N of Items
.874	48

Source: Own Survey, May, 2018

3.9. Ethical Considerations

Ethical consideration in social science research involves application of principles of informed consent, confidentiality and anonymity and publication access (Somekh & Lewin, 2005, p. 56). Any researcher should hence, follow these frequently sets principles drawn up to guide research actions in the field as well as protect the rights of participants in research. In this study, each data collection activity was conducted after study respondents were informed and convinced about the purpose, significance and values of the research. Every participant, in all process of data collection, were genuinely requested to give consents before actual data is collected and data collection was implemented as the researcher gets the good will of respondents. Alongside, respondents were assured as to their responses in the study will be kept confidential and only be used for academic purposes. In doing this, the study respected the right of respondents and maintains informed consent, confidentiality, and anonymity.

CHAPTER FOUR
RESULTS AND DISCUSSION

4.1. Introduction

In this chapter, the researcher presents the major results of the questionnaire and interview administered on sample respondents and the analysis of the results, using the IBM SPSS Software and the literatures written by different scholars. It tries to provide an insight on the overall perception of the Middle-Level managers of the bank on the policies and practices of corporate governance and identify the challenges and factors, which affect the practice of corporate governance in the bank. It uses descriptive statistical tools like frequency distribution, percentage, median, mean and standard deviation to interpret and analyze the data collected from respondents.

In chapter three of the research report, it was discussed that 118 Middle-Level managers were taken as a total population for administering the questionnaire and 92 were selected as a sample based on the formula presented by Yamane (1967). In addition, four Executive Managers and three Branch Managers were selected purposefully to administer the interview. The distribution of questionnaires at the head office was made by using four head office sections located in different places of the city. These are the head offices located at "Stadium", "Zaguwe building" at Lideta, "Debrework Tower" at Mexico and "Arat Kilo". Out of the 92 questionnaires distributed, 88 questionnaires were properly filled in and returned to the researcher. This makes the return rate of questionnaires 95% and it is appropriate since Nulty (2008) argues that any response rate above 75% is classified as appropriate. Hence, the analysis was made based on 88 questionnaires collected from Middle-Level Managers and the interview conducted with four Executive Managers and three Branch Managers. The chapter is demonstrated in four sections. Each section represents the research questions and includes the results and analysis of questions raised under each research question.

4.2. Background Information of the Respondents

According to table 2, presented below, 76.1% of the total respondents were male and 23.9% of the total respondents were female. This shows that a large number of respondents in this study were male and females only take the marginal share from the total respondents. On the same

table, item 2 indicates that, 34.1 % of the total respondents have a BA/BSc degree. While 64.8% have a master's degree (MA/MSc), only one respondent (1.1%) has a PhD. Moreover, a median score of the total output indicates that majority of the respondents has a master's degree (MA/MSc).

Table 2: Background Information of the Respondents

Measurement Items			Frequency	Percent	Cumulative Percent	Median
1.	Gender	Male	67	76.1%	76.1%	
		Female	21	23.9%	100.0%	
		Total	88	100.0%		1.000
2.	Educational Background	BA/BSc	30	34.1%	34.1%	
		MA / MSc	57	64.8%	98.9%	
		PhD	1	1.1%	100.0%	
		Total	88	100.0%		2.000
3.	Years of experience at the current position	< 5 Years	24	27.3%	27.3%	
		5-10 Years	35	39.8%	67.0%	
		10-15 Years	24	27.3%	94.3%	
		> 15 Years	5	5.7%	100.0%	
		Total	88	100.0%		2.000

Source: Own Survey, May 2018

Table 2, item 3 presents the amount of respondent's experience is measured in terms of services years at their current managerial positions. Accordingly, majority of the respondents are found in the range of less than 5 years (27.3%), 5 to 10 years (39.8%) and 10 to 15 years (27.3%). Only 5 respondents (5.7%) have a work experience of more than 15 years. This indicates that a large proportion of respondents have a work experience of 15 and less than 15 years at the time of data collection.

4.3. Policy of Corporate Governance at CBE

According to the Bank of Nova Scotia (2017), Corporate governance encompasses processes and policies that determines how decisions are made and how the Bank deals with the various interests of, and relationships with, its stakeholders, including shareholders, customers,

employees and the broader community. Sound corporate governance policies and practices are important to the creation of shareholder value and maintaining the confidence of customers and investors alike. These Policies are designed to ensure the independence of the Board and its ability to effectively supervise management's operation of the Bank. The Policies are reviewed on an annual basis in the context of changing regulation and emerging best practices with a view to enhancing the Bank's governance. In line with this, this Section presents Survey results and discussion on policies/ procedures of corporate governance at CBE in relation to international best practices in policy layout and assessment. Tables 5 indicate the responses to seven statements with regard to policy and procedures of corporate governance at CBE.

Table 3: Policy of Corporate Governance at CBE

Measurement Items		Stat. Tool	SA(5)	A(4)	N(3)	D(2)	SD(1)	Total
1.	The bank has a corporate governance policy/ procedure that govern its operation on regular basis.	Frequency	39	37	10	2	0	88
		Percentage	44.3%	42.0%	11.4%	2.3%	0.0%	100%
		Median						4.000
		St. Dev.						0.757
		Mean						4.284
2.	The policy/procedures clearly set out the selection, roles and responsibilities of the board, senior management and other lower level management bodies.	Frequency	36	41	10	1	0	88
		Percentage	40.9%	46.6%	11.4%	1.1%	0.0%	100%
		Median						4.000
		St. Dev.						0.706
		Mean						4.272
3.	The policy /procedure incorporates performance and remuneration standards for senior management in line with financial soundness of the bank.	Frequency	15	42	19	11	1	88
		Percentage	17.0%	47.7%	21.6%	12.5%	1.1%	100%
		Median						4.000
		St. Dev.						0.943
		Mean						3.670

Source: Own Survey, May 2018

According to table 6, majority of the respondents (44.5%) strongly believe that the bank is governed by corporate governance framework at regular bases. While 2 respondents (2.3%) disagree with the existence corporate governance policy in the bank, the remaining 10

respondents (11.4%) hold a neutral position. This implies that majority of the Middle-Level Managers believe the bank's operations are governed by a corporate governance policy/ procedure. In addition, the output has the median score of 4 which further support this argument. Besides, during the interview with the key informants, all of them state that the bank has recently prepare and approve a corporate governance framework based on Organization for Economic Cooperation and Development (OECD) and Basel Committee principles and designed to support the each operations of the bank.

Regarding to the selection, role and responsibility of the board at the policy, an overwhelming number of respondents (46.6%) agreed that the policy clearly specified the selection procedures of the boards and their major roles and responsibilities in the system. Yet, one respondent (1.1%) disagree with the statement, 10 respondents (11.4%) had no opinion. However, the interview results with key informants show that, most of these informants (Especially branch managers), had no awareness about the inclusion of such procedures and guidelines at corporate governance policy of the bank. However, executive managers state that since the framework is drawn from the principles and guidelines of OECD and Basel Committee, the corporate governance policy includes the roles and responsibility of board members in the strategic operations of the bank. With regard to the selection procedures, executive managers specify that the policy doesn't include such guidelines. They further states that the selection of board members is out of the circle of corporate governance policy and conducted by the Public Financial Enterprise Agency and Prime Minister of the country.

Pertaining to the inclusion of performance and remuneration standards of senior management at the policy, 42 respondents (47.7%) agreed with the inclusion of such standards at the policy. However, 11 respondents (12.5%) disagree with the existence of these standards at the policy; the remaining 19 respondents (21.6%) were undecided on the matter. The median score of the output also indicates that majority of the respondents believe on the inclusion of performance and remuneration standards of senior management at the policy. Coming to the interview result, it shows an awareness gap of key informants on the performance and remuneration standards of senior management at the policy of corporate governance; the basic performance evaluation system the bank follows; and the grading and remuneration scale for managerial job positions within the bank. Yet, executive managers state that, such standards are part of the policy

framework and it clearly specifies the tools to be applied while conducting these activities at departmental and corporate level.

4.	There are guidelines the bank follow in Risk management, Internal auditing and compliance management.	Frequency	50	37	1	0	0	88
		Percentage	56.8%	42.0%	1.1%	0.0%	0.0%	100%
		Median						5.000
		St. Dev.						0.522
		Mean						4.556
5.	The policy/procedure of corporate governance allows the bank to meet its goals and objectives at corporate level.	Frequency	24	51	12	1	0	88
		Percentage	27.3%	58.0%	13.6%	1.1%	0.0%	100%
		Median						4.000
		St. Dev.						0.668
		Mean						4.113
6.	The policies /procedures of corporate governance are well communicated at all levels of the management in the bank.	Frequency	17	31	23	17	0	88
		Percentage	19.3%	35.2%	26.1%	19.3%	0.0%	100%
		Median						4.000
		St. Dev.						1.016
		Mean						3.545
7.	The bank has a policy/ procedure that guide the disclosure of its material and financial information as well as risk management and decision making process.	Frequency	22	50	13	3	0	88
		Percentage	25.0%	56.8%	14.8%	3.4%	0.0%	100%
		Median						4.000
		St. Dev.						0.734
		Mean						4.034

Source: SPSS Output, May 2018

Concerning the guidelines of risk management, internal auditing and compliance management at the corporate governance policy, more than half of the respondents (56.6%) strongly agreed that the policy includes guidelines of risk management, Internal auditing and compliance management of the bank. Moreover, the median result of the output supports this argument with the score of 5. In the same way, the interview result shows that all informants recognize the inclusion of risk management, internal auditing and compliance management procedures within

the policy. Correspondingly, more than half of the respondents (58.0%) agreed that the current policy of corporate governance enables the bank to meet its goals and objectives at corporate level. While one respondent (1.1%) disagree, 12 respondents (13.6%) remained undecided. According to the interview result, all key informants believed that the corporate governance policy helps the bank to meet its strategic objectives. As for these key informants, the major problems that have been seen since the approval of the policy is lack of willingness and ability to properly implement what has been said at the policy. With this regards, Belaynew (2014) states that corporate governance has an ability to determine the success or failure of a particular company. A company with effective corporate governance will sustain and become successful. On the contrary, those companies that do not have an effective system of corporate governance are on the edge of failure. Hence, having the policy is not the only requirement to be successful and proper implementation of what is stipulated in the policy is imperative

On the issue of communicating the policy to the concerned management, 31 (35.2%) respondents agreed that the policy has been communicated to all level of the management in the bank. However, 17 (19.3%) respondents disagree with this statement, while 23 (26.1%) respondents hold a neutral position. Contrary to this, the branch managers, during the interview, stated that the current communication level, up to the lower management, is very poor and it was not intensively dealt with both the executive management and the board. The major reasons they provide are shortness of time since the approval of the framework and lack of a separate function, which handles the issues of corporate governance within the bank. However, executive managers, during the interview, specified that short-term trainings and workshops had been given to the board by foreign delegates in recent times. But the issues of corporate governance have not yet been communicated effectively to all stakeholders within the bank and this highly affects the implementation process in the bank’s regular operations.

With regards to disclosure and transparency, 50 respondents (56.8%) agreed that the disclosure and transparency is one part of the policy and it specifies procedures that guide the disclosure of material and financial information as well as risk management and decision making processes. Oppositely, 3 respondents (3.4%) disagree with this issue and 13 respondents (14.8%) remains undecided. When we come to the interview result, all informants stated that the policy includes

directives that specify the disclosure of financial and other related reports to all stakeholders of the bank using either portal communication systems or through bank's magazine.

In general, the results of the above descriptive statistics shows that, the bank has a corporate governance policy that provide guidance in major internal operations by setting out the roles and responsibilities of key corporate actors, designing remuneration structure and performance management systems as well as major key functions such as risk, internal auditing and compliance management functions. Hence, it supports the bank to achieve its goals and objectives and creates a system of check and balance across the bank. These results are supported by OECD (1999) principles that state the policy of corporate governance must include the basic principles such as the roles and responsibilities of the board, procedures of risk and compensation management and the guidelines of timely and accurate disclosure of material matters. Moreover, The Basel committee on Banking Supervision (2015) clearly states that stakeholders have the right to know their corporate governance policy in order to understand the guidelines, raise questions for further review and fulfill their responsibilities accordingly. However, the above descriptive result opposes to principles of Basel Committee on Banking Supervision (2015), due to its indication of a communication gap in addressing the governance framework at all level of managers.

4.4. Practice of International Corporate Governance Principles at CBE

Due to the quick development in the capital and financial markets besides the aggressive adapting of information technology and high competition among banks, corporate governance represents an important issue of protecting shareholders and depositors besides monitoring the performance of the board of directors. These raise the need for applying corporate governance in public and private banks (Croitoru and Saltaji, 2017). The aim of corporate governance should be maintenance of the interest of stakeholders' in line with interest of the public consistently (Basel Committee Principles on Banking Supervision, 2015). Effective corporate governance requires a clear understanding of the respective roles of the board, management and shareholders; their relationships with each other and with other corporate stakeholders (Business Roundtable, 2016). This Section primarily deals with the results and discussion on the application of corporate

governance principles and practices endorsed by Basel Committee in the implementation of corporate governance framework at CBE.

4.4.1. Board's Overall Responsibility

Table 4: Board's Overall Responsibility

	Measurement Items	Stat. Tools	SA(5)	A(4)	N(3)	D(2)	SD(1)	Total
1.	The Board approves and oversees the development and implementation of bank's business objectives and strategies.	Frequency	45	42	1	0	0	88
		Percentage	51.1%	47.7%	1.1%	0.0%	0.0%	100%
		Median						5.000
		St. Dev						0.525
		Mean						4.500
2.	The Board oversee implementation of the bank's governance framework and periodically review that it remains appropriate in the light of material changes.	Frequency	34	37	11	6	0	88
		Percentage	38.6%	42.0%	12.5%	6.8%	0.0%	100%
		Median						4.000
		St. Dev						0.881
		Mean						4.125
3.	The Board considers the legitimate interest of depositors' and stakeholders while discharging its responsibilities.	Frequency	27	39	15	0	7	88
		Percentage	30.7%	44.3%	17.0%	0.0%	8.0%	100%
		Median						4.000
		St. Dev						3.897
		Mean						1.093
4.	The board ensure that the risk management, compliance and internal audit functions are properly staffed and carry out their responsibilities independently and objectively	Frequency	21	39	21	0	7	88
		Percentage	23.9%	44.3%	23.9%	0.0%	8.0%	100%
		Median						4.000
		St. Dev						3.761
		Mean						1.072

Source: Own Survey, May 2018

According to table 6, Majority of the respondents agreed that the boards approves and oversees the development and the implementation of bank's business objectives and strategies with the median score of 5 (51.1% strongly agreed). Similarly, majority of the respondents (44.3%)

agreed that the board review the governance framework based on material changes. The interview result shows all key informants agreed that the board mainly involves in the development and approval of strategies and objectives alongside with executive management. However, none of the informants had the information, whether there is a periodic review of governance framework by the board. As to the key informants, the corporate governance framework is developed recently and they had no information about any plans hold by the board to perform such activities in the future.

On the same table, a vast number of (44.3%) respondents agreed that the board keeps the interest of its depositors and stakeholders while discharging its responsibilities. However, 7 respondents (8.0%) disagree and the rest remain undecided (17.0%). Likewise, Majority of the respondents agreed that the risk, compliance and internal audit functions are properly staffed and perform their activities independently and objectively. While 7 (8.0%) respondents disagree with this statement, 21 (23.9%) respondents hold a neutral position.

The OECD (1999) and Basel Committee on Banking Supervision (2015) emphasize that the board should take a responsibility in terms of 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 divestitures. Moreover, it has the responsibility in ensuring the integrity of the corporation's accounting and financial reporting systems including their independence, monitor the effectiveness of the governance practices under which it operates and making changes as needed. More specifically, the Basel Committee on Banking Supervision (2015) stress that the board has a responsibility of overlooking implementation of the bank's governance framework and make a periodic review to ensure that it remains appropriate in the light of changes to the bank's size, complexity, geographical footprint, business strategy, markets and regulatory requirements. Additionally, it should take into account the legitimate interests of depositors, shareholders and other relevant stakeholders.

As a conclusion, comparing the results with the theoretical framework presented above, the board is effective in terms of fulfilling its responsibility by monitoring the development and implementation of bank's strategy and objectives as well as ensuring the independence and professional competency of key functions. Moreover, it performs its duty in safeguarding the

interests of stake holders and depositors while settling its strategic operation. However, based on the data provided, it is quite difficult to infer that the board reviews the governance framework for any changes in the internal and external environment.

4.4.2. Board's Qualification

This section presents the results of respondents with regard to the qualification of a board based on its professional competence and participation on trainings. Accordingly, majority of respondents had no awareness with the professional competency and diversified background of the board (31.8%), as well as, the opportunity and participation they have on ongoing trainings about corporate governance (40.9%). The interview result on this aspect shows that each board member has the required qualification in terms of the required knowledge and skill. However, synchronized answers could not be given by the key informants with regard to trainings and participation of board members on those trainings due to lack of awareness. But, executive managers stated that short term trainings were recently given to the board by foreign delegates and since training is one of the crucial element in the governance approved this January, the bank has a plan in providing trainings of corporate governance to the board and all managers in a wider scale. The summary is presented in the following table:

Table 5: Board's Qualification

Measurement Items		Stat. Tool	SA(5)	A(4)	N(3)	D(2)	SD(1)	Total
1.	Board members have a professional competence in relevant areas and have varied backgrounds to promote diversity of views.	Frequency	13	28	25	12	10	88
		Percentage	14.8%	31.8%	28.4%	13.6%	11.4%	100%
		Median						3.000
		St. Dev.						1.205
		Mean						3.250
2.	The board ensures that board members participate in induction programs and have access to ongoing training on relevant issues.	Frequency	9	21	36	18	4	88
		Percentage	10.2%	23.9%	40.9%	20.5%	4.5%	100%
		Median						3.000
		St. Dev						1.011
		Mean						3.147

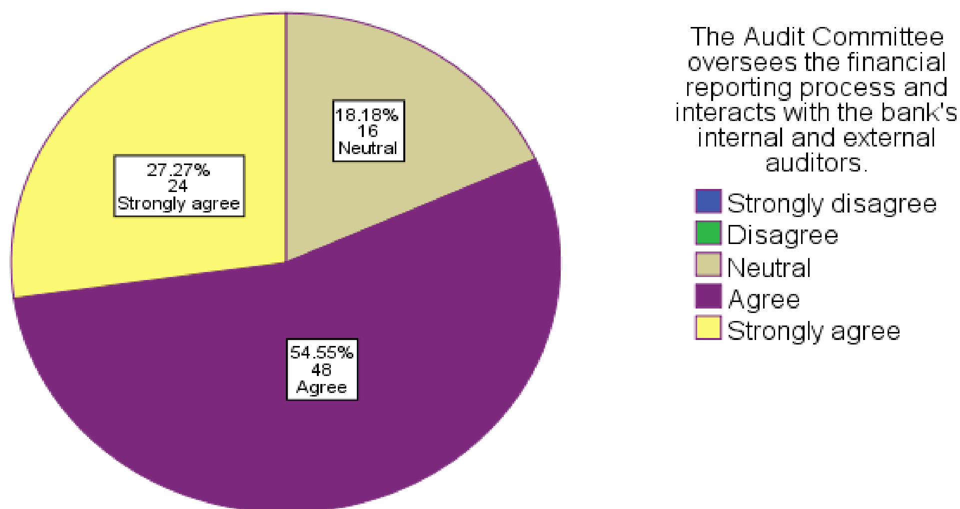
Source: Own Survey, May 2018

The results presented in this section agree with the study conducted by Alem (2011). According to her study, most of the banks in Ethiopia have no formal orientation programs for new board members and training sessions for existing board members. Contrarily, it opposes with the findings of Paulos (2015) and the principles stated in the Basel committee for Banking Supervision (2015). Paulos (2015), in his study, specify that majority of the banks in Ethiopia give enough attention to the professional competency of their board members and induction and trainings are provided to board of directors to enhance their present skill and competency as well as in order to keep them up to date with the modern banking business. The Basel committee for Banking Supervision (2015) states that the board should be comprised of individuals with a balance of skills, diversity and expertise and who collectively possess the necessary qualifications that commensurate with the size, complexity and risk profile of the bank. Moreover, the board should ensure that members participate in induction programs and have access to ongoing training on relevant issues which may involve internal or external resources.

To wind up, the above descriptive statistics shows that the bank has a board of directors who has the required professional competency level to perform their duties and responsibilities. However, the training and induction programs provided to the boards are at an infant stage and require more organization and collaboration from the respective stakeholders.

4.4.3. Board's Own Structure

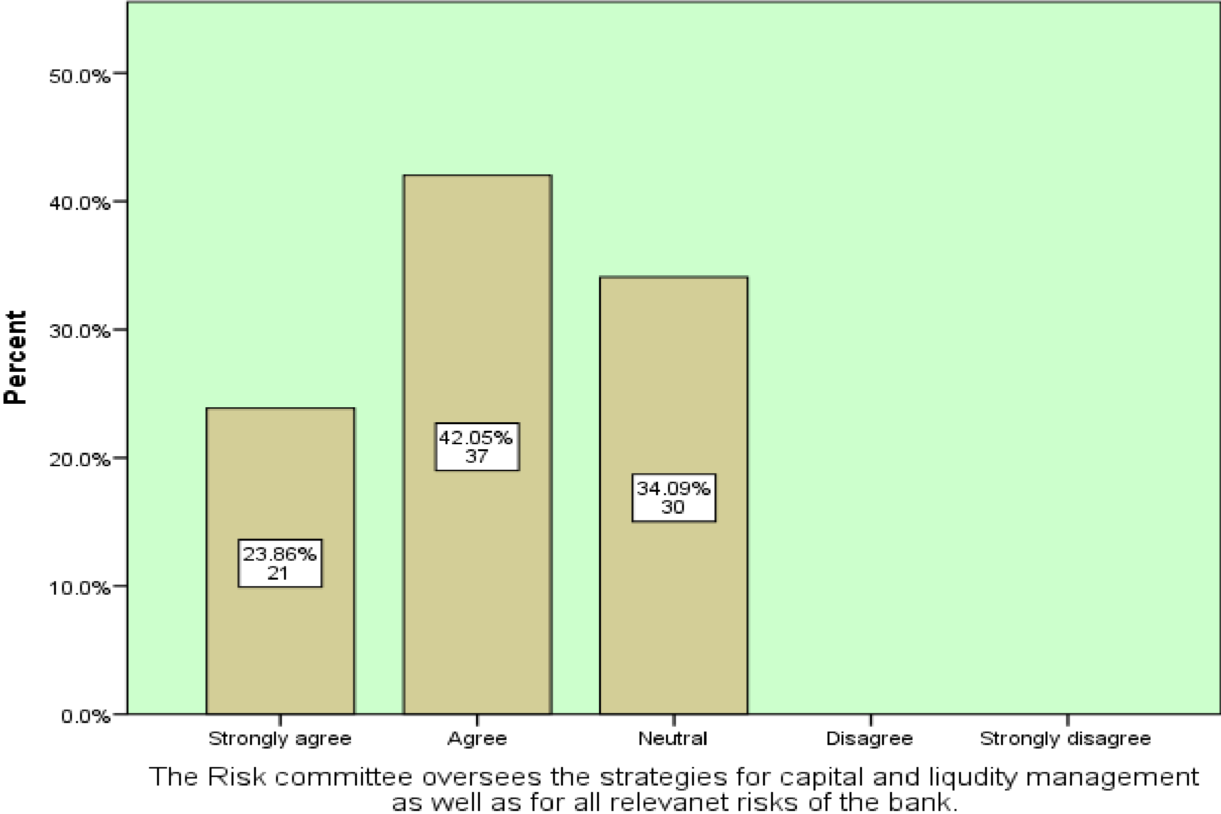
Figure 2: Audit Committee



Source: Own Survey, May 2018

As it is shown in Figure 2, 48 respondents (54.55%) agreed that the audit committee oversees the financial reporting process and interacts with the banks internal and external auditors with a median score of 4. On the same subject, 16 respondents (18.18%) hold a neutral position and no respondents disagree with the issue. Similarly in Figure 3, depicted below, respondents were asked about the responsibility of a risk committee in overseeing the strategies for capital and liquidity management and all relevant risks of the bank. Accordingly, 37 respondents (42.05%) agreed with the matter at a median score of 4 and 30 respondents (34.09 %) remains undecided. Similar to the result shown in figure 2, no respondent disagree with the overall responsibility of risk committee on capital and liquidity as well as risk management of the bank. Contrary to the results provided above, all the key informants stated that there is neither risk nor audit committee in the current structure of the board. Moreover executive managers assured the researcher that the board is not interested in setting up such committees and the audit and risk activities are only conducted by the chief officers reporting directly to the Vice Presidents.

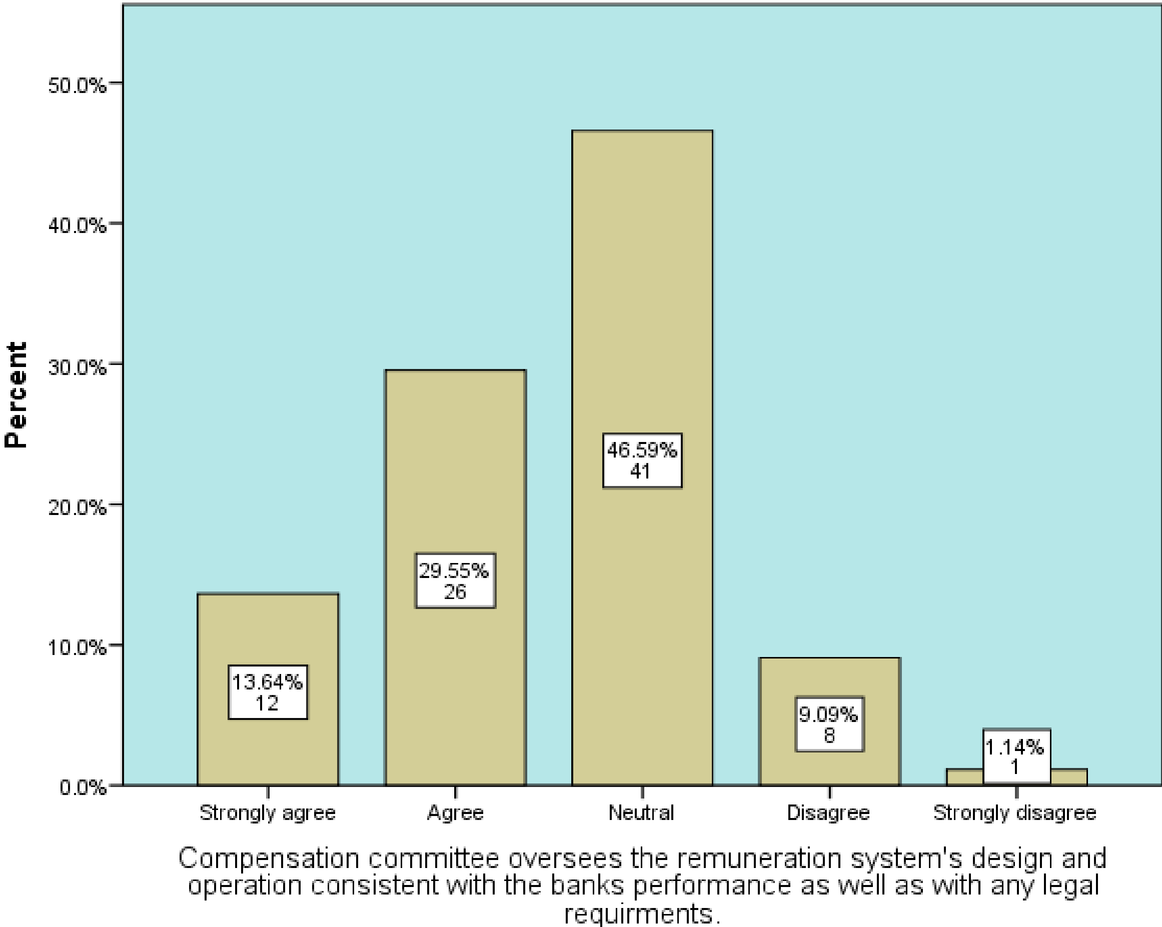
Figure 3: Risk Committee



Source: Own Survey, May 2018

Figure 4 represents the activity of compensation committee with regard to remuneration system design and operation. Hence, majority of the respondents hold a neutral position on the matter with a median score of 3. In addition, 38 respondents (43.1%) agree with the issue and the rest 9 (10.2%) respondents disagree. Likewise, on Figure 5, more than half of the respondents (53.41%) remained undecided on the role of the nomination committee in analyzing the roles and responsibilities of board of directors together with the professional competency required with it. On the same matter, 21 respondents (23.86%) agree, while 8 respondents (9.09%) disagree with the statement.

Figure 4: Compensation Committee

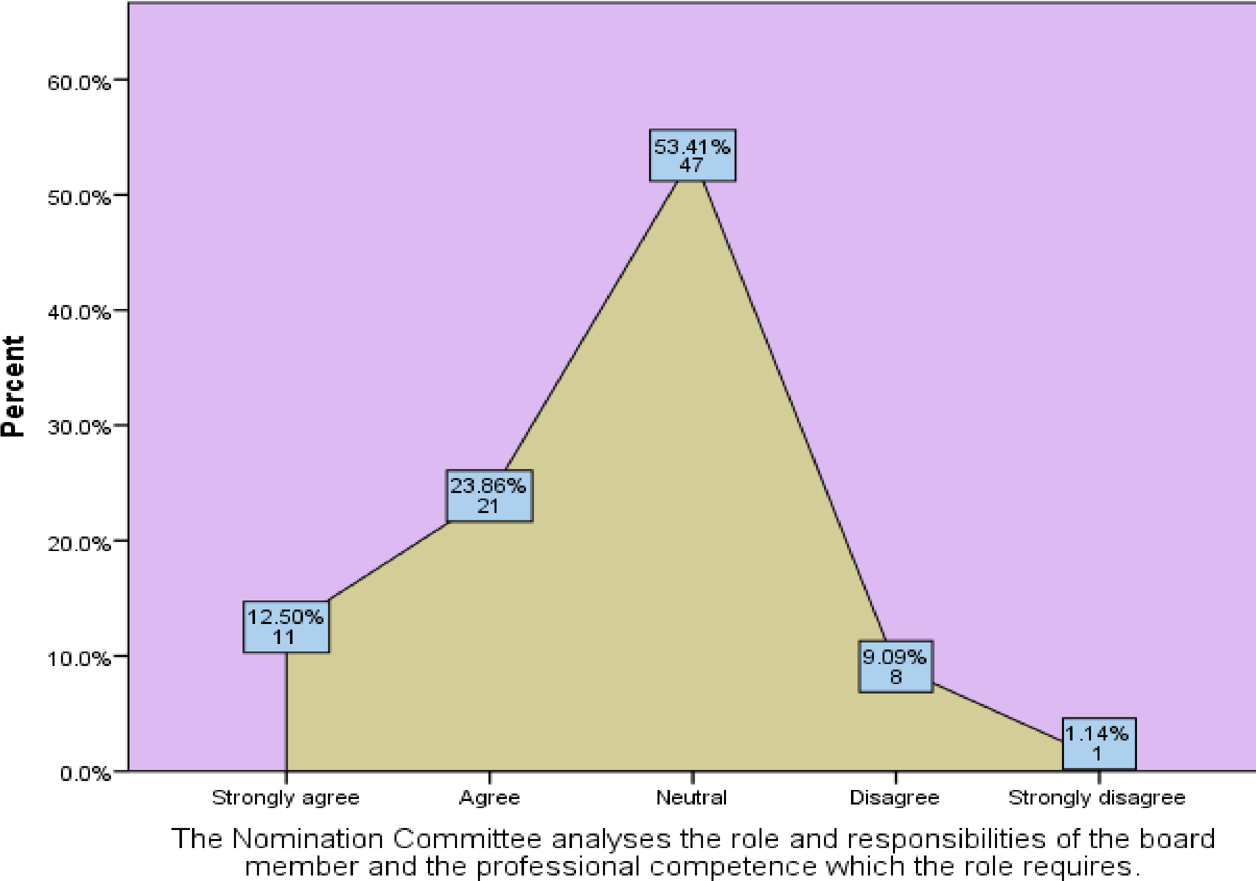


Source: Own Survey, May 2018

According to the key informants, neither the compensation nor the nomination committee exists in the current structure of the board. The compensation issues of the board are administered

based on the national bank directives and management remuneration is set by the salary scale of the bank. Regarding nomination of the board and the management, the bank has nothing to do with board nomination because the activity is already undertaken by the government. Managers are nominated based on the periodic performance appraisal and direct recommendation from the board. Moreover, executive managers added that, the participation level of inside management and employees to board membership is very law and the entire nomination process is highly influenced by the political personality of each candidate. They also added that the current board of the bank is composed of higher government officials and party members of the ruling government. This indicates that there is high political intervention in the strategic operation of the board and the act of nominating and assigning board members is solely undertaken by the ruling government without any consideration to the bank's corporate governance framework or national bank directives.

Figure 5: Nomination Committee



Source: Own Survey, May 2018

The descriptive statistics of audit committee and risk committee presented above converge with the study conducted by Hermanson and Rittenberg, (2003) and Paulos (2015). According to these two scholars, the risk and audit committee has the main responsibility in counseling the board with regard to risk handling mechanisms and establishing financial reporting systems. Particularly, Hermanson and Rittenberg, (2003), under their study, specify the importance of audit committee in the board structure and conclude that the primary role of the audit committee should be monitoring the financial reporting process - with the goal of helping to ensure reliable financial reporting.

However, the statistical and interview results obtained on nomination and compensation committee opposes with the Basel Committee on Banking Supervision (2015). The Basel Committee on Banking Supervision (2015) states that, to increase efficiency and allow deeper focus in specific areas, a board may establish certain specialized board committees. The committees should be created and mandated by the full board. It also specifies what is expected from each of these specialized committees within the board structure. Accordingly, the audit committee has the responsibility of overlooking the financial report of the bank and communicates with both internal and external auditors while the risk committee has the responsibility to oversight of the strategies for capital and liquidity management as well as for all relevant risks of the bank, such as credit, market, operational and reputational risks. The compensation committee, on the other hand, has the responsibility of overseeing the remuneration practice of the bank and the nomination committee has the responsibility of Providing recommendations to the board for new board members and members of senior management independently based on the analysis of the role and responsibilities of the board member and the knowledge, experience and competence which the role requires.

Despite the convergence of the mean, standard deviation and median score of the risk and audit committee with previous studies, the results obtained from interviewees contradicts with the principles stated in the Basel committee guideline. Specifically, it shows a gap between the current structure of CBE’s board and the board structure specified on the principles. Hence we can say that, the board of the bank is not well structured into specialized committees that can assist in performing its strategic duties and this will hinder the establishment of good corporate governance across the bank.

4.4.4. Senior Management

The following section presents key aspects of senior management in the corporate governance system. Hence, respondents were asked about the professional competency, management of bank's activity and recruitment and selection procedure of senior managers. Accordingly, majority of the respondents agreed that member of senior mangers' are professionally competent (58.0%); ensures the bank's activities are in line with strategies and polices approved by the board (62.5%); and they are recruited and selected based on merit competence (35.2%), all scoring the median of 4. This is quite similar with the response of key informants during the interview which all approved these matters of the bank. Summary of the result is presented in the table below:

Table 6: Senior Management

	Measurement Items	Stat. Tools	SA(5)	A(4)	N(3)	D(2)	SD(1)	Total
1.	Members of senior management have the professional competence to manage the businesses and people under their supervision.	Frequency	26	51	9	2	0	88
		Percentage	29.5%	58.0%	10.2%	2.3%	0.0%	100%
		Median						4.000
		St. Dev.						0.687
		Mean						4.147
2.	Members of senior management are recruited and selected through a procedure based on merit competence.	Frequency	15	31	26	15	1	88
		Percentage	17.0%	35.2%	29.5%	17.0%	1.1%	100%
		Median						4.000
		St. Dev						1.004
		Mean						3.556
3.	Members of senior management ensure that the bank's activities are in line with the strategy and policies approved by the board.	Frequency	29	55	3	1	0	88
		Percentage	33.0%	62.5%	3.4%	1.1%	0.0%	
		Median						4.000
		St. Dev						0.581
		Mean						4.272

Source: Own Survey, May 2018

In summary, the above descriptive statistics revealed that members of senior management have the professional competency to manage the people under their supervision and oversee the bank activities in line with the strategy and policy of the bank. Moreover, senior managers are selected with a procedure guided by merit competency. These results agree with the principles and guidelines of OECD (1999) and Basel Committee on banking supervision (2015). According to them, the senior management should have the necessary experience, competencies and integrity to manage the businesses and people under their supervision. They should receive access to regular training to maintain and enhance their competencies and stay up to date on developments relevant to their areas of responsibility. Moreover, they should be selected through an appropriate promotion or recruitment process which takes into account the qualifications required for the position in question.

4.4.5. Risk Management

Table 7: Risk Management

	Measurement Items	Stat. Tools	SA(5)	A(4)	N(3)	D(2)	SD(1)	Total
1.	The risk management handles ongoing monitoring of the risk-taking activities and risk exposures of the bank.	Frequency	33	49	6	0	0	88
		Percentage	37.5%	55.7%	6.8%	0.0%	0.0%	100%
		Median						4.000
		St. Dev.						0.594
		Mean						4.306
2.	There's an ongoing communication about the risk issues and challenges about risk-taking across the bank.	Frequency	21	40	19	8	0	88
		Percentage	23.9%	45.5%	21.6%	9.1%	0.0%	100%
		Median						4.000
		St. Dev.						0.895
		Mean						3.840
3.	The bank has compliance function that advice the board (compliance committee) and senior management on the bank's compliance with applicable laws, rules and standards.	Frequency	29	45	10	4	0	88
		Percentage	33.0%	51.1%	11.4%	4.5%	0.0%	100%
		Median						4.000
		St. Dev						0.785
		Mean						4.125

Source: Own Survey, May 2018

According to table 9, more than half of the respondents (55.7%) agreed that the risk management function handles ongoing monitoring of risk taking activities and risk exposure of the bank. Likewise, half of the respondents (51.1%) mention that the bank has a compliance function that advice the board and senior management on bank's compliance with applicable laws, rules and standards. Yet, under the same subject, 4 respondents (4.5%) disagree and 10 respondents (11.4%) remained undecided. Interview question concerning with the responsibility of risk and compliance management functions also provided similar result with the above descriptive statistics result.

Pertaining to the communication of risk across the bank, 40 (45.5%) respondents agreed that there is an ongoing communication about the risk issues and challenges about risk taking across the bank. While 8 respondents (9.1%) disagree with this subject, 19 respondents (21.6%) hold a neutral position. The interview result indicates that, risk management and current risk exposures have been communicated between each department through reports and high importance is given to risk management by the board and senior management.

The result of descriptive statistics under this section revealed that the board and senior management along with risk management function monitors the risk taking activities of the bank and ensures effective communication of the risk factors using reports. Moreover, the compliance function makes sure that the bank's operations are in line with applicable laws, rules and standards. This agrees with the research findings of Ellul (2015) which states that a strong risk management function is necessary in the banking sector whose main responsibility is to identify risk factors and set out a risk mitigating mechanisms under the supervision of senior management. Moreover, it also converges with the principles of Basel committee on Banking Supervision (2015) and OECD (1999) principles. According to them, the independent risk management function is a key component of the bank's second line of defense and it is responsible for overseeing risk-taking activities across the enterprise. It also stress that a strong risk culture can be developed when there is an ongoing communication about risk issues, including the bank's risk strategy, throughout the bank.

4.4.6. Internal Audit and Compensation

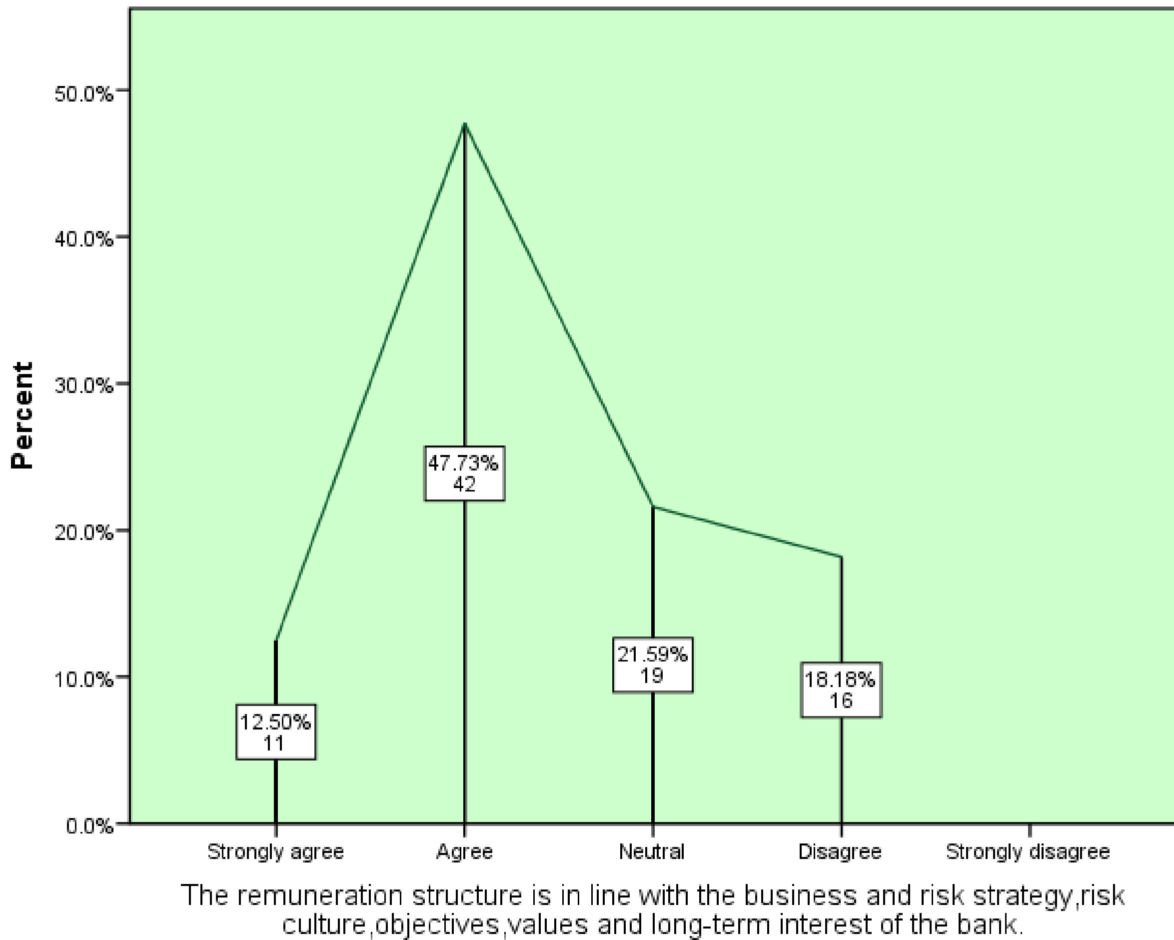
Table 8: Internal Audit

Measurement Items		Stat. Tool	SA(5)	A(4)	N(3)	D(2)	SD(1)	Total
1.	The board and senior management provide the internal audit function with full and unconditional access to any records, file data and physical properties of the bank.	Frequency	28	36	16	8	0	88
		Percentage	31.8%	40.9%	18.2%	9.1%	0.0%	100%
		Median						4.000
		St. Dev						0.933
		Mean						3.954
2.	Internal audit reports are provided to the board or its audit committee without filtering of senior management	Frequency	18	38	15	8	9	88
		Percentage	20.5%	43.2%	17.0%	9.1%	10.2%	100%
		Median						4.000
		St. Dev						1.212
		Mean						3.545

Source: Own Survey, May 2018

Table 10 presents the response of respondents on the role of internal audit at corporate governance framework. Accordingly, 36 respondents (40.9%) agreed that the board and senior management provide a full and unconditional access to any materials of the bank to the internal audit function. However, 8 respondents (9.1%) disagree with this statement, 16 respondents (18.2%) remained undecided. On the other hand, 38 respondents (43.2%) agreed that senior management doesn't filter any data presented in audit report to the board. Contrarily, 17 respondents (19.3%) disagree and 15 respondents (17.0%) hold a neutral position. These results converge with the outcome attained from key informants which represents their full approval on the subject. They also added that the board and senior management is cooperative in terms of respecting the independence of Internal Audit function.

Figure 6: Remuneration Structure

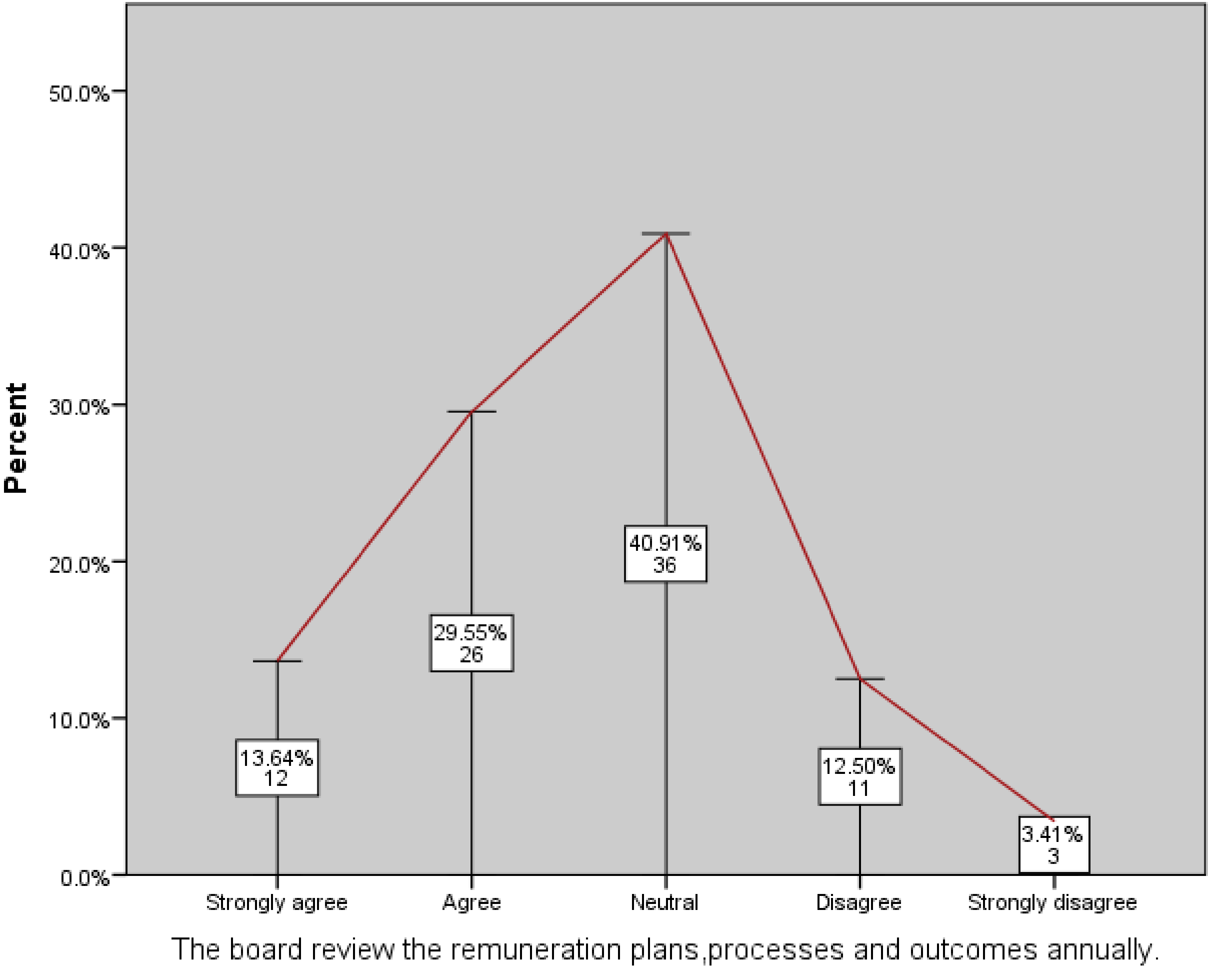


Source: Own Survey, May 2018

Figure 6 and 7 presents the remuneration structure and the review of remuneration plan, process and outcome in the corporate governance system respectively. According to figure 6, majority of the respondents (47.73%) agreed that the remuneration structure is in line with the strategy, risk culture, objectives, values and long-term interest of the bank. Yet, 16 respondents (18.18%) disagree with this issue and 19 respondents (21.59%) hold a neutral position. Key informants also stated that the bank is effective in aligning its remuneration policy with its benefits and internal stakeholders. Concerning to the review of remuneration plan, process and outcome, majority of the respondents (40.91%) unaware of such activity by the board and hold a neutral position. Contrarily, 26 respondents (29.55%) agreed with the statement while the remaining 14 respondents (15.9%) disagree. According to the interview result, executive managers stated that

the board has no involvement in the review of remuneration plan, process and outcomes and it is solely handled by the finance department along with the supervision of executive management and vice presidents. Moreover, the branch managers had no information about periodic review of the remuneration plan by the board.

Figure 7: Review of Remuneration Plan, Process and Outcome



Source: Own Survey, May 2018

In summary, the above descriptive statistics demonstrate that significant number of respondents agree with the internal audit function is entitled to a full access of data it requires and reports reached to the board without any filtration from senior management. Moreover, it indicates that the remuneration structure is in line with the risk strategy, objectives and long-term interest of the bank. However, it shows hesitancy of the board in reviewing remuneration plan, process and

outcomes annually. These descriptive findings of the study are similarly attested by other research outputs. Karagiorgos et.al (2010), states that there is a strong relationship between internal audit and corporate governance. Internal auditing contribute to corporate governance by bringing best practice ideas about internal controls and risk management processes to the board and by providing information about any fraudulent activities or irregularities within the bank.

Basel committee on banking supervision (2015) also stress that the board and senior management contribute to the effectiveness of the internal audit function by providing the function with full and unconditional access to any records, file data and physical properties of the bank, including access to management information systems, records and the minutes of all consultative and decision-making bodies and by ensuring direct access of the board without the intervention of senior management. Furthermore, "the board has the responsibility to make sure that the remuneration structure is in line with the business strategy, objectives, values and long-term interests of the bank. It should also incorporate measures to prevent conflicts of interest". However, contrary to the result presented above, it points out "The board or subcommittee should review the remuneration plans, processes and outcomes at least annually".

4.4.7. Disclosure and Transparency

According to Table 11, shown below, 33 respondents (37.5%) agreed that the bank annually disclose recruitment and selection approach used for board members. While 17 respondents (19.3%) disagree, 28 respondents (31.8%) hold a neutral position. Similarly, 32 respondents (36.4%) agreed that the bank discloses the incentive structure and remuneration practices for senior managers together with the actual amount they receive. Contrarily, 15 respondents (17.0%) disagree and 30 respondents (34.1%) remained undecided. However, the median results for the two responses shows a score of 3 which indicates lack of awareness among respondents on the matter raised. This was also supported by key informants who stated that the recruitment and selection approach is very vague and conducted without their awareness. Moreover, they included that managers and board members are assumed to be compensated based on banks internal policy and national bank directives respectively. However, the exact amount board members receive annually and per meetings is totally undisclosed for them.

Table 9: Disclosure and Transparency

	Measurement Items	Stat. Tools	SA(5)	A(4)	N(3)	D(2)	SD(1)	Total
1.	The bank annually discloses the recruitment and selection approach for the selection of members of the board.	Frequency	8	33	28	17	2	88
		Percentage	9.1%	37.5%	31.8%	19.3%	2.3%	100%
		Median						3.000
		St. Dev						0.965
		Mean						3.318
2.	The bank has a practice of prompt disclosure of material information, risk factors, or developments which could affect the bank's performance.	Frequency	9	63	9	7	0	88
		Percentage	10.2%	71.6%	10.2%	8.0%	0.0%	100%
		Median						4.000
		St. Dev						0.709
		Mean						3.840
3.	The bank discloses the incentive structure and remuneration practices for senior management, as well as the actual amounts paid to senior managers and directors.	Frequency	10	32	30	15	1	88
		Percentage	11.4%	36.4%	34.1%	17.0%	1.1%	100%
		Median						3.000
		St. Dev						0.941
		Mean						3.397

Source: Own Survey, May 2018

With regards to prompt disclosure of factor which could affect bank's performance, more than half of the respondents (71.6%) agreed that the bank has a practice of disclosing material information, risk factors or other developments which could affect the bank's performance. However, 7 respondents (8.0%) disagree with this statement and 9 respondents (10.2%) hold a neutral position. The interview result also reflects that the bank has good disclosure culture of material information and ad hoc risk factors using quarterly, annually and semi-annually reports and portal communication methods.

In general, the finding of the study shows that the bank has a poor disclosure practice in terms revealing its recruitment and selection approach and the incentives of the board and senior management. However, it is performing well in prompt disclosure of material and other related information using reports and portable communication devices. With this regard, the findings are

reflected in a study conducted by Paulos (2015) and Alem (2011). In these studies, both researchers specified that the disclosure practice of most of the banks in Ethiopia is very poor due to the fear they have on disclosing information lead to the loss of competitive advantage in the industry. Alem (2011) specifically stated that, the bank under her study doesn't disclose the incentive structure and remuneration practices for senior management and board.

According to Basel committee on banking supervision (2015), all banks, should disclose relevant and useful information that supports the key areas of corporate governance. At a minimum, banks should disclose annually the recruitment approach for the selection of members of the board and material information on the bank's objectives, organizational and governance structures and policies (in particular, the content of any corporate governance or remuneration code or policy and the process by which it is implemented). It should also show major share ownership and voting rights, and related party transactions. Contrasting the result with these principles, the bank is doing well in disclosing its material information to the stakeholders. However, a lot of improvement is needed in reveling the board's incentives and their selection approach.

4.5. Factors that affect Policies and Practices of Corporate Governance at CBE

Corporate governance comes from the top of the company, and it includes the management of internal affairs as well as managing the links with external one (Akram et.al, 2014). As agents of financial institutions, boards and senior management bear the responsibility of ensuring that regulatory policies translated into operational practices. Rules must be embedded into the day-to-day business and operations that suit an institution's business environment. Good corporate governance will not emerge from mere compliance with regulatory checklists as each financial institution is different and unique. With careful introspection, each individual institution needs to reflect on whether its governance arrangements, practices and business models are effective and still relevant. In doing so, each institution must continuously assess and take into consideration the nature, scope and scale of its business (Ibrahim, 2014). Hence, this section presents the major internal and external factors that affect financial institutions like CBE in developing good corporate governance.

The factors that affect the current policies and practices of corporate governance at CBE include:

Table 10: Factors of Corporate Governance at CBE

Measurement Items		Stat. Tools	SA(5)	A(4)	N(3)	D(2)	SD(1)	Total
1.	Size of the board	Frequency	14	36	22	15	1	88
		Percentage	15.9%	40.9%	25.0%	17.0%	1.1%	100%
		Median						4.000
		St. Dev						0.993
		Mean						3.534
2.	The positive interaction between Senior Management and the Board.	Frequency	19	50	15	4	0	88
		Percentage	21.6%	56.8%	17.0%	4.5%	0.0%	100%
		Median						4.000
		St. Dev						0.756
		Mean						3.954
3.	Existence of strong and competent boards and a pool of professional senior management.	Frequency	35	38	9	3	3	88
		Percentage	39.8%	43.2%	10.2%	3.4%	3.4%	100%
		Median						4.000
		St. Dev						0.968
		Mean						4.125

According to Table 12, majority of the respondents agreed that internal factors that includes board size (40.9%), board diversification (52.3%), harmonization (56.8%) and professional competency (43.2%) of the board and senior management, and the practice of strategic planning and performance of the board (42.0%) affects the policies and practices of corporate governance of the bank. In addition, it is also forwarded that external factors including complexity of operations in financial operations (52.3%) and imposition of global regulatory forms (43.2%) are the major determinants of the current policy and practices of corporate governance in the bank. Furthermore, key informants during the interview stated that the involvement of government in the key activities determines the success of the newly developed corporate governance framework of the bank.

4.	The diversification of board of directors.	Frequency	25	46	10	4	3	88
		Percentage	28.4%	52.3%	11.4%	4.5%	3.4%	100%
		Median						4.000
		St. Dev						0.9465
		Mean						3.977
5.	The imposition and implementation of global regulatory reforms.	Frequency	16	38	29	5	0	88
		Percentage	18.2%	43.2%	33.0%	5.7%	0.0%	100%
		Median						4.000
		St. Dev						0.823
		Mean						3.738
6.	The increase on complexity of the operations of financial institutions and financial groups.	Frequency	21	46	16	5	0	88
		Percentage	23.9%	52.3%	18.2%	5.7%	0.0%	100%
		Median						4.000
		St. Dev						0.807
		Mean						3.943
7.	Strategic Planning and Performance of the bank	Frequency	37	29	9	11	2	88
		Percentage	42.0%	33.0%	10.2%	12.5%	2.3%	100%
		Median						4.000
		St. Dev						1.114
		Mean						4.000

Source: Own Survey, May 2018

In summary the descriptive statistics shows that factors involving the board, senior management and external regulatory reforms affect the policy and practice of corporate governance of the bank. This was supported under the study conducted by Bathulah (2008), Akram et.al (2014), Maingi (2016) and Yenesew (2012). Moreover, Ibrahim (2014), stated that the burden of "extraterritorial" laws and regulatory requirements and the complexity of operations as financial institutions grow in size and expand abroad could be the other influential factors that affects corporate governance of banks.

4.6. Challenges of Policies and Practices of Corporate Governance at CBE

This section presents the major challenges of CBE in developing and implementing its corporate governance framework. According to Ibrahim (2014), good governance ultimately depends on the existence of strong and competent boards and a pool of professional senior management. To remain effective, board of directors and senior management must play an important role in improving firm financial performance and driving the corporate governance agenda forward. One important lesson we ought to learn is that weak governance causes the failure of financial institutions. The costs of salvaging a failed institution far outweigh the costs incurred to prevent such a failure. Over the long term, the failure of institutions would also cause businesses and households that depend on financial institutions for funding to be in a difficult position, erode public trust that would take many years to restore and consequently result in more intrusive and prescriptive regulation of the industry.

The factors that affect the current policies and practices of corporate governance at CBE include:

Table 11: Challenges of Corporate Governance at CBE

Measurement Items		Stat. Tools	SA(5)	A(4)	N(3)	D(2)	SD(1)	Total
1.	Board's reluctance in approving and overseeing management's implementation of the bank's strategic objectives, governance framework and risk management.	Frequency	27	31	13	15	2	88
		Percentage	30.7%	35.2%	14.8%	17.0%	2.3%	100%
		Median						4.000
		St. Dev						1.137
		Mean						3.750
2.	Lack of corporate culture that reinforce appropriate norms for responsible and ethical behavior.	Frequency	16	42	6	24	0	88
		Percentage	16.2%	47.7%	6.8%	27.3%	0.0%	100%
		Median						4.000
		St. Dev						1.080
		Mean						3.568

From Table 14, Majority of the respondents agreed that all the listed challenges affect the policy and practices of corporate governance in the bank with the median score of 4. Accordingly, Board's reluctance in approving and overseeing of the bank's strategic objectives, governance

framework and risk management (35.2%), Lack of professional competency from board members (37.5%), Lack of corporate culture (47.7%), Reluctance of senior management in carrying out bank's activity (52.3%), Poor communication of information between the board and senior management (42.0%), Mismatch of remuneration structure with the bank's overall corporate governance and risk management (31.8%) and Lack of timely and accurate disclosure of material and financial information (51.1%) are the major challenges of corporate governance in the bank.

3.	Lack of professional competency from board members to understand their corporate governance role.	Frequency	24	33	19	11	1	88
		Percentage	27.3%	37.5%	21.6%	12.5%	1.1%	100%
		Median						4.000
		St. Dev						1.025
		Mean						3.772
4.	Reluctance of senior management to carry out and manage the bank's activities approved by the board.	Frequency	9	46	15	16	2	88
		Percentage	10.2%	52.3%	17.0%	18.2%	2.3%	100%
		Median						4.000
		St. Dev						0.982
		Mean						3.500
5.	Poor communication of information between the board and senior management in a timely and accurate manner	Frequency	10	37	23	14	4	88
		Percentage	11.4%	42.0%	26.1%	15.9%	4.5%	100%
		Median						4.000
		St. Dev						1.034
		Mean						3.397

In addition to this, Interview result shows that high political interference from the government, the mix of state faction with that of ownership faction from the government and NBE, lack of participation of employees to be an independent candidate for board membership on full time base, lack of board willingness to take the role and responsibilities stated in the corporate framework and the tightening of corporate governance laws, regulations and NBE directives are the challenges forwarded by key informants.

6.	Mismatch of remuneration structure with the bank's overall corporate governance and risk management.	Frequency	24	28	22	10	4	88
		Percentage	27.3%	31.8%	25.0%	11.4%	4.5%	100%
		Median						4.000
		St. Dev						1.133
		Mean						3.659
7.	Lack of timely and accurate disclosure of material and financial information regarding governance of the bank.	Frequency	12	45	19	12	0	88
		Percentage	13.6%	51.1%	21.6%	13.6%	0.0%	100%
		Median						4.000
		St. Dev						0.884
		Mean						3.647

Source: Own Survey, May 2018

In general the results of the above descriptive statistics indicates the major challenges of the bank in developing good corporate governance and this has been reflected in previous researches by different scholars. A study conducted by Asnakech (2013) states that one of the bigger problems in corporate governance of Ethiopian banking sector is the blending of politics with the industry. Hence, she specified that, "it is highly probable that business decisions are being made solely on political justification rather than sound business principles". Ibrahim (2014), on his study also states that the success of any corporate governance framework depends on professional competency and harmonization of the boar and senior management. Moreover, he specifies that "there should always be a balance between performance and stability. That means, for instance, the structuring of remuneration schemes should reward long-term performance and encourage sound risk-taking". Paulos (2015) stated that "since banks are among highly regulated industries, their governance mechanisms are influenced by law, proclamation and NBE's directives. As a result, their play ground is limited".

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

Sound corporate governance policies and practices are important to the creation of shareholder value and maintaining the confidence of customers and investors alike. With this regards, it is essential for financial institutions to pursue effective corporate governance policies to achieve their strategic objectives. Hence, the purpose of this study was to assess the policy and practices of corporate governance at CBE based on the samples taken from Managers of the head office and branches. It mainly focuses on the extent to which the principles and best practices of corporate governance endorsed by Basel committee on banking supervision are applied at Commercial Bank of Ethiopia in developing and implementing their corporate governance framework. Therefore, assessment of the policy layout and implementation practices against Basel Committee principles and practices had served as a framework for the study. Besides, the research also tried to identify the major challenges and factors affecting corporate governance framework applied in the bank. Based on the descriptive analysis made on the results, this chapter presents the conclusion and recommendations forwarded by the researcher.

5.2. Conclusion

Generally, the bank has a corporate governance policy that governs its operation on regular basis. The policy has been developed at January, 2018 based on the OCED and Basel committee principles. It outlines the major roles and responsibilities of board of directors, senior management as well as lower level management. Among the top management in the bank's governance hierarchy, board members are selected externally by the public financial agency (Government Agency). The corporate governance policy incorporates the remuneration and performance measurement standards for senior management and set out guidelines for risk, internal auditing and compliance management departments as well as disclosure of material and non-material information of the bank. Overall, the corporate governance policy of the bank plays a key role in achieving the bank's goals and objectives. However, the finding of the research shows that there are communication and knowledge gaps among the management in

understanding guidelines of the corporate governance framework. Moreover, the policy doesn't include the selection procedures of the board members in the bank.

Regarding the practical application of international principles of corporate governance at CBE, the bank performs well in spite of some problems in the board structure and its disclosure practices. The board is composed of higher officials of the government selected by the public financial agency administered under the prime minister of the country. The board has a responsibility of overseeing the development and implementation of the bank's business strategies and its governance framework. It also ensures the proper staffing of key functions so that they can perform their duties independently and objectively. Members have the required professional competency and capable enough to safeguard the interests of depositors and stakeholders. However, the findings of the study show that the board is not subjected to regular trainings and induction programs on corporate governance policies and principles, and the practice of providing such programs to the board as well as other stakeholders is at an infant stage. Moreover, the board does not structure itself in special sub-committees and tasks are performed at individual level rather than committees structured within the board.

Additionally, the bank has a senior management which is professionally eligible to manage the businesses and employees under their supervision with the oversight of the board. They are recruited and selected based on merit competency rather than seniority and ensures each bank's activities are performed in line with the strategy and policies approved by the board. The bank has also structured itself into key functions with enormous role on the effective implementation of corporate governance framework. The risk management is one key function which handles ongoing monitoring of the risk-taking activities and risk exposures of the bank. It communicates risk and risk related issues to each functions of the bank through reports under the supervision of senior management. The compliance function is responsible for providing advice to the board and senior management on the bank's compliance with applicable laws, rules and standards.

Furthermore, the internal audit function is accountable to the board and performs its activity without any external pressure from the senior management. It has the freedom and unconditional access of materials it requires as well as presents its audit reports without any alteration from the senior management. The board also approves remuneration structure based on the strategies, objectives and long term interests of the bank. However, it is reluctant to review the

remuneration plan, process and outcomes of the bank periodically. Concerning to the disclosure practice, the study findings show that the bank has a good disclosure practice in revealing material, financial, risk and other related information to stakeholders using reports and portable communication devices. However, the compensation of the board and senior management as well as the selection procedures of the board are not disclosed clearly and in regular basis.

Finally, the study identifies board composition, board qualification, senior management - board relationship and external regulatory reforms as major factors that affect the policy and practice of corporate governance in the bank. Moreover, poor communication and disclosure, lack of eligibility of the board and senior management, mismatch of remuneration structure with the governance policy, strict regulations of NBE directives on corporate governance and lack of participation from inside employees for board membership are identified as existing challenges in the practice of corporate governance in the bank.

Overall, it can be concluded that the application of corporate governance as a governing mechanism within the bank is at its early stage of development and it requires commitment and collaboration from the board, senior management and other stakeholders of the bank. Although the policy of corporate governance is approved recently, its implementation process is progressing slowly due to continuous political interference from the government and lack of willingness by the board to accept international principles provided by institutions like OECD and Basel Committee. Furthermore, the communication gap and disclosure problems further aggravates a quick acceptance of the policy by the stakeholders of the bank

5.3. Recommendations

Based on the results of data collected and the conclusions made, this section presents the major recommendations forwarded by the researcher. The main purposes of these recommendations are to address both empirical and practical interventions by the board and the management of CBE to improve the practice of corporate governance and increase the effectiveness of the bank in its operations. The recommendations are presented in the following manner:

1. Different scholars have stated that the board plays a key role in promoting, directing and assuring the establishment of good corporate governance in financial corporations. It has an overall responsibility in approving and overseeing bank's strategies, activities of the management, the governance framework and its practical implementation. However, this study indicates that the board of the bank is reluctant to perform its roles as it is stated in the governance framework and lack the initiative to take a leading role in supporting the policy as well as its practical implementation in bank's operations. Moreover, it is not open minded to changes and willing to improve the practice of corporate governance by applying internationally accepted principles and best practices within its governance system. Therefore, the researcher strongly recommends that the board should be aware of these problems and need to evaluate its performance in fulfilling its duties and responsibilities. In addition, it should recognize the importance of its corporate governance policies, and make a continuous effort for effective implementation and further improvement. The concerned government authorities and National Bank of Ethiopia should also monitor how corporate governance policy is implemented in the bank and take corrective measures if deficiencies are observed

2. International principles indicate that the board must structure itself in different committees and sub committees for the purpose of over sighting bank's operations and promoting good board performance. It is also stated under national bank directives that the board of financial institutions must setup itself into a minimum of three sub committees. This includes the Audit Committee, Risk Committee and Nomination Committee. However, the findings of this study on the board of CBE show that the board does not structure itself into any committees for achieving its roles and responsibilities specified in the framework. This negatively affects the effectiveness of the board in

making an in-depth follow-up and decision-making on key activities of the bank. Hence, the researcher recommends that the board of CBE should structure itself into sub-committees that incorporate selected board members for effective oversight of bank's operation and for enhancement of its performance over time.

3. One of the traits of good corporate governance is the communication of its key policies among the stakeholders of the corporation. In this study, the findings show that there is poor communication practice of the governance framework at middle and lower level managers across the bank. This makes mangers to have less awareness about the contents of the policy and restrict them to make their own contribution for its successful implementation at the bank. Hence, it is recommended that the board along with senior management should establish an effective communication system to ensure proper information flow of corporate governance policy by creating awareness exchanging programs in the form of training or seminar for all level managers of the bank.

4. For any corporation to have effective governing body, the knowledge and skills of its board members and senior managers are very crucial. One way of enhancing this is by enabling them with continuous training and development programs to the current principles and practices of corporate governance. The findings on this research show that, training and induction programs on the issues of corporate governance are not given the required attention from the government in general. Absence of such programs hinders awareness of the board members and limits their financial, regulatory or risk-related experience. Hence, the researcher recommends that the concerned government body needs to provide the necessary trainings to the board through allocation of the required resource and in collaboration with appropriate experts on the field.

5. Disclosure and Transparency are key elements in corporate governance framework, which ensures a sustainable check and balance and sound corporate governance across the bank. Different International financial institutions have the practice of disclosing their major information and personal incentives of the top management to the concerned stakeholders. This indeed helps them to create sufficient transparency for insuring accountability among stakeholders of the bank. However, the findings on this study reveal that the bank has a poor disclosure practice of incentive structures along with the

actual amount received by the board members and executive managers. The bank, hence, needs to overlook this problem again and maintain its transparency by disclosing to the stakeholders using different communication medias similar to material and non-material information of the bank

6. According to the findings of the study, there is mismatch between the practices of remuneration structure and corporate governance policy procedures and weakness in timely and accurate disclosing material and financial information to stakeholders. Moreover, respondents also indicate that National Bank of Ethiopia endorses tight corporate governance regulations, and these legal frameworks affect the corporate governance system of the bank. Therefore, the board and senior management should ensure that procedures indicated in the policy are implemented in the real ground effectively. Furthermore, National Bank should re-consider its frameworks to ensure that there is sufficient autonomy left for Commercial Bank to issue and implement its own corporate governance policy.

7. Finally, the last issue raised under this study was intervention of the Ethiopian government over the policy and practice of corporate governance of the bank. Different scholars' state that the common problem that can adversely affect state-owned financial institutions is the intervention of government officials in day-to-day operational decisions. Moreover, when there is a high degree of government influence, board members may lack the independence necessary to undertake their duties properly. The result can diminish access to financial services, and weaken the stability of the financial system, often the opposite of the rationale for government ownership of financial institutions in the first place. Therefore, the researcher insists that, there has to be a clear separation of responsibility within the government for exercising ownership and regulatory and supervisory responsibilities towards CBE. Moreover, the bank needs to have a clear board appointment process that adheres to explicit policies and procedures and must ensure the ability of the board to exercise its responsibilities in an independent manner, by using competence and experience requirements consistent with its strategies and objectives.

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APPENDICES

Annex 1

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

GENERAL MBA

SENIOR THESIS QUESTIONNIER DESIGNED FOR MIDDLE LEVEL MANAGERS

My name is Biruk Tesfaye. I am attending MBA in General Management at St. Mary's University. Currently, I am writing my senior thesis on the title **"*Policies and Practices of Corporate Governance in Commercial Banks of Ethiopia: The case of CBE*"** as a partial fulfillments of the requirements for Masters of Business Administration in General Management, St. Mary's University, School of Graduate Studies.

The intent of this questionnaire is to collect data on the current policies and practices of Corporate Governance at CBE in relation to the principles endorsed by Basel Committee. The data to be collected through this questionnaire is highly valuable to meet the objectives of the study. Therefore, you are kindly requested to fill in and return the questionnaire. The information you provide would be used only for ***academic purpose*** and will be kept ***confidential***.

Thank you for your cooperation!!!

Biruk Tesfaye Kebede

St. Mary's University

School of Graduate Studies

General MBA

Section 1: **General Information about Respondents**

The following questions are about your personal information. Please provide your general background on the space provided below (put "√" mark in the boxes):

1. Gender: Male ☐ Female ☐
2. Educational Background: BA/BSc ☐ MA/MSc ☐ PhD ☐
   Other: ________________________________
3. Years of Experience on the Current Position: ________________________

Section 2: **Questions about Corporate Governance Policy, Practices, Challenges & Factors**

General Guidelines

- Please put "√" mark in the boxes and tables.
- There is no need to write your name on the paper; all answers will be kept confidential.
- The numbers on the table represents the following phrases:

  5:- Strongly agree 3:- Neutral 1:- Strongly disagree

  4:- Agree 2:- Disagree

2.1. Assessment of Corporate Governance Policy of CBE

	Policy of the Bank Vs. BCBS Principles of Corporate Governance	5	4	3	2	1
1.	The bank has a corporate governance policy/ procedure that govern its operation on regular basis.					
2.	The policy/procedures clearly set out the selection, roles and responsibilities of the board, senior management and other lower level management bodies.					
3.	The policy /procedure incorporate performance and remuneration standards for senior management in line with financial soundness of the bank.					
4.	There are guidelines the bank follow in Risk management, Internal auditing and compliance management.					
5.	The policy/procedure of corporate governance allows the bank to meet its goals and objectives at corporate level.					
6.	The policies/procedures of corporate governance are well communicated at all levels of the management in the bank.					
7.	The bank has a policy/ procedure that guide the disclosure of its material and financial information as well as risk management and decision making process.					

2.2. Assessment of Corporate Governance Practices of CBE

Practices of the Bank Vs. BCBS Principles and Best Practices		5	4	3	2	1
Board's Overall Responsibility						
1.	The Board approves and oversees the development and implementation of bank's business objectives and strategies.					
2.	The Board oversee implementation of the bank's governance framework and periodically review that it remains appropriate in the light of material changes.					
3.	The Board considers the legitimate interest of depositors' and stakeholders while discharging its responsibilities.					
4.	The board ensure that the risk management, compliance and internal audit functions are properly staffed and carry out their responsibilities independently and objectively					
Board Qualification						
1.	Board members have a professional competence in relevant areas and have varied backgrounds to promote diversity of views.					
2.	The board ensures that board members participate in induction programs and have access to ongoing training on relevant issues.					
Boards Own Structure						
1.	The Audit Committee oversees the financial reporting process and interacts with the bank's internal and external auditors.					
2.	The Risk Committee oversees the strategies for capital and liquidity management as well as for all relevant risks of the bank					
3.	Compensation Committee oversees the remuneration system's design and operation consistent with the bank's performance as well as with any legal requirements.					
4.	The Nomination Committee analyses the role and responsibilities of the board member and the professional competence which the role requires.					
Senior Management						
1.	Members of senior management have the professional competence to manage the businesses and people under their supervision.					
2.	Members of senior management are recruited and selected through a procedure based on merit competence.					
3.	Members of senior management ensure that the bank's activities are in line with the strategy and policies approved by the board.					

	Risk Management					
1.	The risk management handles ongoing monitoring of the risk-taking activities and risk exposures of the bank.					
2.	There is an ongoing communication about the risk issues and challenges about risk-taking across the bank.					
3.	The bank has compliance function that advice the board (compliance committee) and senior management on the bank's compliance with applicable laws, rules and standards.					
	Internal Audit and Compensation					
1.	The board and senior management provide the internal audit function with full and unconditional access to any records, file data and physical properties of the bank.					
2.	Internal audit reports are provided to the board or its audit committee without filtering of senior management					
3.	The remuneration structure is in line with the business and risk strategy, risk culture, objectives, values and long-term interests of the bank.					
4.	The board reviews the remuneration plans, processes and outcomes annually.					
	Disclosure and Transparency					
1.	The bank annually discloses the recruitment and selection approach for the selection of members of the board.					
2.	The bank has a practice of prompt disclosure of material information, risk factors, or developments which could affect the bank's performance.					
3.	The bank discloses the incentive structure and remuneration practices for senior management, as well as the actual amounts paid to senior managers and directors.					

2.3. Statements of Factors that affect policies & practices of Corporate Governance of CBE

Which factors affect the policy and practices of Corporate governance at CBE and AIB?		5	4	3	2	1
1.	Size of the board					
2.	The positive relation between Senior Management and the Board.					
3.	Existence of strong and competent boards and a pool of professional senior management					

4.	The diversification of board of directors					
5.	The imposition and implementation of global regulatory reforms.					
6.	The increase on complexity of the operations of financial institutions and financial groups.					
7.	Strategic Planning and Performance of the bank					

2.4. Statements of Challenges of policies & practices of Corporate Governance of CBE

Which challenges affect the policy and practices of Corporate governance at CBE and AIB?		5	4	3	2	1
1.	Board's reluctance in approving and overseeing management's implementation of the bank's strategic objectives, governance framework and risk management.					
2.	Lack of corporate culture that reinforce appropriate norms for responsible and ethical behavior.					
3.	Lack of professional competency from board members to understand their corporate governance role.					
4.	Reluctance of senior management to carry out and manage the bank's activities approved by the board.					
5.	Poor communication of information between the board and senior management in a timely and accurate manner.					
6.	Mismatch of remuneration structure with the bank's overall corporate governance and risk management.					
7.	Lack of timely and accurate disclosure of material and financial information regarding governance of the bank.					

Please state if there is any additional comment:

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Thank you again for your kind cooperation!!!!

Annex 2

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

GENERAL MBA

SENIOR THESIS INTERVIEW GUIDELINE FOR EXECUTIVE MANAGERS AND BRANCH MANAGERS

1. Does the bank has a Corporate Governance Policy? If there is, what elements are included within its content?
2. How do you express the overall board responsibility interims of :
   - Involvement of affairs of the bank and material change
   - Monitoring bank's governance frame work
   - Creating an adhering atmosphere for the practice of corporate culture and values.
   - Creating a smooth relationship with senior management and other stake holders
   - Oversight of Senior Management…
3. How does the bank nominate and select its board members and senior managers?
4. How do you express board members' professional competency? Are they entitled to any trainings or experience sharing programs within their area of work? Who is responsible for such activities in the bank?
5. How does the board structure itself to conduct its activities?
6. How do express the current Senior/Executive management in terms of their eligibility and leading capability?
7. What is the major role of Risk and compliance management department in corporate governance system of the bank?
8. What type of communication mechanisms does the bank use about risk across the organization and through reporting to the board and senior management?

9. What is the relationship between the internal audit department, the board and senior management?
10. How does the board handle compensation of senior executives and the development and implementations of compensation systems and related control processes?
11. How do you explain the effectiveness of remuneration structure approved by the board in terms of bank's performance? Does the board review this structure periodically?
12. How do you explain the practice of the bank in disclosure of accurate information and its transparency to its stakeholders?
13. What are the main factors the bank faces in the overall practice of its corporate governance?
14. What are the current challenges the bank faces in terms of practicing its corporate governance policies.

Thank you for your kind cooperation!!!!

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Elias Nour (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

_________________________	_________________________
Name	Signature
St. Mary's University, Addis Ababa	**June, 2018**

ENDORSEMENT

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

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Advisor Signature

St. Mary's University, Addis Ababa June 2018