THE IMPACT OF CORPORATE GOVERNANCE MECHANISMS ON THE PERFORMANCE OF COMMERCIAL BANKS: THE CASE OF PRIVATE BANKS IN ETHIOPIA

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Abstract

This study seeks to see the level of impacts that different corporate governance mechanisms has on financial performance of banks in Ethiopia. Explanatory research design was used in establishing the casual effect relationship between corporate governance variables and banks financial performance measures. Secondary data were collected from the banks’ annual reports and the NBE. The study utilized panel data analysis methodology in drawing conclusion about the study covering ten-year period from 2006-2015. The fixed effect model was applied to allow heterogeneity among 7 banks. The regression results show that presence of female directors and industry specific experience of directors has positive and significant effects on financial performance of private banks while number of board committees has significant negative effects on bank performance. The study results implied that stakeholders should give prior considerations to the presence of female directors and industry specific experience of directors when they set governance policy for industry in general and for the bank in particular.

Keywords: Agency theory, banks, financial performance

JEL Classification: G34

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1. Background of the study

Corporate governance has become an issue of global significance than ever. This could be the result of several attributes. Such as recognizing corporate governance as an essential element in strengthening long-term economic performance of countries and corporations (Ibrahim et al., 2010); the growing concern over corporate governance due to the increase of reported cases of frauds (Enobakhare, 2010); corporate failure as witnessed in the collapse of Enron in 2001 and WorldCom in 2002 (Inyang, 2009); and the global financial crisis of 2007/8 emanated from the poor governance practices in the financial sector.

Very recent definition given by Strine (2010) entails that corporate governance is about putting in place the structure, processes and mechanisms that ensure the firm is directed and managed in a way that enhances long-term shareholder value through accountability of managers which will then enhance firm performance. Hence, corporate governance has become an important factor in managing organizations in the current global and complex environment.

Many researchers have studied the impact of corporate governance mechanisms on firms’ performance from different perspectives in different environments using a number of variables of interest (Moustafa, 2007; Ibrahim et al., 2010; Khatab et al., 2011; Sanda et al., 2005). The researchers found mixed results on the relationship between corporate governance mechanisms and firms’ performance.

In addition to its effect on firm performance, corporate governance can be related with the agent and principal relationship between shareholders and managers. Enhancing corporate governance is the primary approach to reducing agency problem. The emergence and growth of private corporations in Ethiopia necessitate improvement in the corporate governance mechanisms for the fact that empirical evidences (Fikadu, 2010; Tewodros, 2011; Tura, 2012) showed the existence of agency problem which may deprave the interest of shareholders.

With regard to banks, Banking Business Proclamation [Negarit Gazeta Proclamation No.592/2008] and the National Bank of Ethiopia (NBE, 2009) directives prohibit foreign nationals or organizations fully or partially owned by foreign nationals to open banks or branch offices or subsidiaries of foreign banks in Ethiopia or acquire the shares of
Ethiopian banks and chief executive officer from concurrently holding the chief executive officer position and membership in the board of directors. NBE Directives No. SBB/49/2011 prohibits employee of the banks to serve as a member in the board of directors of any bank. The directives target at avoiding conflict of interest, and applying appropriate chain of command, and checks and balances. Such prohibition can indeed help ensure the independence of the board from the influence of the bank executives. On the other hand, the Commercial Code of Ethiopia 1960 article 374(1) stipulates that only members of a company may manage the company. This provision excludes external directors from engaging in the governance of share companies to which they are not shareholders, and concerning board size, the Commercial Code provides under Art 347 (2) that a company must have at least five directors but not more than twelve. So far, limited empirical researches (Ferede, 2012; Fanta el al., 2013) have been conducted in Ethiopian context, but the corporate governance variables are either limited in scope or some of them are inappropriate and their existence cannot be differently observed across the banks or over the years covered for the study. Given this lack of empirical studies, this study fills the gap and provides empirical evidence on the impact of corporate governance mechanisms on financial performance of commercial banks taking into consideration the variables related to the realities of the private commercial banks’ governance mechanism in Ethiopia.

Moreover, Ethiopia’s corporate governance landscapes are embedded in a setting that differs from a western context in several ways (Dessalegn & Mengistu, 2011). Ethiopian banks’ corporate governance is characterized by the absence of organized share market, and the country has different regulations, practices and economic features. As a result, there is a need to conduct a separate study.

2. Literature Review

This section of literature review concentrates on previous studies that have been conducted in relation to this study. There were mixed results concluded by previous studies pertaining to the relationship between corporate governance mechanisms and firms’ financial performance.
Aljifri and Moustafa (2007) provided evidence on the impact of corporate governance mechanisms on firms' performance using 51 United Arab Emirates listed firms by using both accounting and market data for the year 2004. They have employed cross-sectional regression analysis to test whether the selected corporate governance variables have an impact on firms' performance or not after controlling firm size. The results of the study showed that the debt ratio and the payout dividends ratio have a significant impact on the firm performance (Tobin's Q); whereas the board and firm sizes have insignificant effect on firms' performance.

Babatunde and Olaniran (2009) analyse the effects of internal and external governance mechanism on performance of corporate firms in Nigeria. In the study panel data regression analysis was used with a sample of 62 firms listed on the Nigerian Stock Exchange for a period of five years from 2002 to 2006. The researchers found a positive and significant relationship between board size and leverage and the dependent variable Tobin’s Q. When the return on asset was used as the dependent variable significant positive relationship of board size and leverage with return on asset was found. However, there was a negative relationship between, and firm size and the return on asset.

Adusei (2011) investigated the relationship between board structure and bank performance with panel data from the banking industry in Ghana by implementing pooled ordinary least square estimation method of regression. A total sample of 17 out of 26 universal banks was used in the study. The researcher used return on asset and cost income ratio as dependent variable and board size as independent variable. The researcher incorporated bank age, bank size, funds, and ownership structure and listing status as a control variable. The study found that as the size of bank’s board of directors' decreases, its profitability increases. No significant relationship between the size of a bank and its financial performance has been found. He recommended that banks seeking some improvement in their performance should constitute small sized board. Fanta, Kemal and Waka (2013) empirically assessed the relationship between selected internal and external corporate governance mechanisms, and bank performance as measured by ROE and ROA. The study used structured review of documents, and commercial banks financial data were collected covering a period 2005 to 2011. The findings indicated that board size and existence of audit committee in the board had
statistically significant negative effect on bank performance, whereas bank size had statistically significant positive effect on bank performance. Similarly, capital adequacy ratio, as a measure of external corporate governance mechanism, had statistically significant positive effect on bank performance.

Shungu, et al., (2014) investigated the impact of corporate governance on the performance of commercial banks in Zimbabwe. Using data gathered from 2009-2012, for a sample of five commercial banks, it applies multi-regression model to assess the causal relationship between corporate governance measures (board size, internal board committees and board diversity) and bank performance. The results indicate unidirectional causal relationship from corporate governance to bank performance. In addition, there a positive relationship between board diversity and commercial bank performance, although a negative relationship appears between board size, board committees and bank performance. They concluded that in order to improve performance in commercial banks good corporate governance practices must implemented.

3. Research Design

The primary aim of this study is to examine the impact of corporate governance mechanisms on firm’s financial performance. To achieve this objective, explanatory type of research design with a mixed approach, more of quantitative, is employed. According to Marczyk et al., (2005), the explanatory type of research design helps to identify and evaluate the causal relationships between the different variables under consideration. A panel data study design which combines the attributes of cross sectional (inter-firm) and time series data (inter-period) is used. The advantage of panel data analysis is that more reliable estimates of the parameters in the model can be obtained (Gujarat, 2004).

3.1. Source and Type of Data

The two data types are primary and secondary. Primary data are obtained by self-administered questionnaires to the sampled private commercial banks. Secondary data are obtained from the banks published annual reports and the National Bank of Ethiopia spanning over ten years.
3.2. Model Specification and Description of Study Variables

In this study, the variables are selected based on alternative theories and previous empirical studies related to corporate governance and firm performance.

**Dependent Variables**

In this study, the dependent variables are variables that are used to measure the financial performance of sample private commercial banks. To measure the financial performance of banks, Tobin's Q and other market-based measures have been used by many researchers. However, in Ethiopia there is no secondary market so that it is not possible to use Tobin's Q as well as other market-based measures.

1. Return on asset (ROA) - measures the overall efficiency of management. It gives an idea as to how efficient management is at using its assets to generate profits.

   \[ ROA = \frac{Profit\ After\ Tax}{Total\ Asset} \]

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

   \[ ROA = \frac{Profit\ After\ Tax}{Total\ Equity} \]

3. Earnings per share (EPS) – the rate of earning per share is the return per share computed on the basis of the net profit after tax but before legal reserve divided by the weighted average number of shares held during the year. Serve as an indicator of the bank’s profitability. Earnings per share show how profitable a bank is on a shareholder perspective.

   \[ EPS = \frac{Profit\ After\ Tax\ but\ Before\ Legal\ Reserve}{Weighted\ Average\ Number\ of\ Outstanding\ Common\ Shares} \]

**Independent Variables**

In this study, the independent variables are variables used as a determinant of corporate governance of the private commercial banks. The independent variables of the study are bored size, board
gender diversity, number of board committees, board members
industry specific experience, and frequency of board meetings.

**Control Variables**

In this study, four bank specific control variables are included
to account their potential influence on banks’ financial performance in
order to know effect of the selected explanatory variables on bank
financial performance. The selected control variables are bank size,
bank leverage, bank age, and introduction of NBE bills. The control
variables were selected based on previous studies and the existing
situations.

**Model Specification**

To estimate the impact of corporate governance mechanisms
on the financial performance of sample commercial banks in Ethiopia,
the following general empirical research model is developed.

\[
Y_{it} = \beta_0 + \sum \beta_K X_{it} + \epsilon_{it}
\]

Where:

- \(Y_{it}\) - the dependent variables (ROA, ROE, and EPS) of bank \(i\) for time period \(t\)
- \(\beta_0\) - the intercept
- \(\beta_K\) - the coefficients of the \(X_{it}\) variables
- \(X_{it}\) - the explanatory variables (bank size, female director, board
  committee, directors’ experience, board meeting, bank size, bank
  leverage, and bank age) of bank \(i\) for time period \(t\)
- \(\epsilon_{it}\) - the error term

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

\[
\begin{align*}
\text{ROA}_{it} &= \beta_0 + \beta_1(BZ_{it}) + \beta_2(FD_{it}) + \beta_3(BC_{it}) + \beta_4(BEXP_{it}) + \beta_5(BM_{it}) + \\
& \quad + \beta_6(BS_{it}) + \beta_7(BL_{it}) + \beta_8(BA_{it}) + \beta_9(NEBE_{it}) + \epsilon_{it} \\
\text{ROE}_{it} &= \beta_0 + \beta_1(BZ_{it}) + \beta_2(FD_{it}) + \beta_3(BC_{it}) + \beta_4(BEXP_{it}) + \beta_5(BM_{it}) + \\
& \quad + \beta_6(BS_{it}) + \beta_7(BL_{it}) + \beta_8(BA_{it}) + \beta_9(NEBE_{it}) + \epsilon_{it} \\
\text{EPS}_{it} &= \beta_0 + \beta_1(BZ_{it}) + \beta_2(FD_{it}) + \beta_3(BC_{it}) + \beta_4(BEXP_{it}) + \beta_5(BM_{it}) + \\
& \quad + \beta_6(BS_{it}) + \beta_7(BL_{it}) + \beta_8(BA_{it}) + \beta_9(NEBE_{it}) + \epsilon_{it}
\end{align*}
\]

Where:

- \(i\) denotes banks ranging from 1 to 7 (cross-sectional dimension)
- \(t\) denotes years ranging from 2006 to 2015 (time-series dimension)
Dependent Variables
ROA<sub>it</sub> - Return on Asset for <i>i</i>th bank and time period <i>t</i>,
ROE<sub>it</sub> - Return on Equity for <i>i</i>th bank and time period <i>t</i>,
EPS<sub>it</sub> - Earning per share for <i>i</i>th bank and time period <i>t</i>,

Independent variables
BZ<sub>it</sub> - Board Size for <i>i</i>th bank and time period <i>t</i>,
FD<sub>it</sub> - Female Directors on the board for <i>i</i>th bank and time period <i>t</i>,
BC<sub>it</sub> - Board Committees for <i>i</i>th bank and time period <i>t</i>,
BEXP<sub>it</sub> - Board Members industry specific experience for <i>i</i>th bank and time period <i>t</i>,
BM<sub>it</sub> - Board Meetings for <i>i</i>th bank and time period <i>t</i>,

Control variables
BS<sub>it</sub> - Bank Size for <i>i</i>th bank and time period <i>t</i>,
BL<sub>it</sub> - Banks Leverage for <i>i</i>th bank and time period <i>t</i>,
BA<sub>it</sub> - Bank Age for <i>i</i>th bank and time period <i>t</i>,
NBEB<sub>it</sub> - introduction of NBE Bills for <i>i</i>th bank and time period <i>t</i>,

4. Results and Discussions

4.1. Descriptive Statistics of Variables

In order to understand the nature of explanatory variables of the models, mean, maximum, minimum and standard deviation are calculated for each one of them. The mean values tell about the average amount of each variable. Standard deviation has been used to analyse the variations of dependent, independent as well as control variables. The average values of return on asset return on equity and earnings per share measure financial performances private banks in this study are 3.10 percent, 24.48 percent and 41.00 birr per share, respectively with a standard deviation of 1.10, 9.19, and 22.37 from the respective average values. The standard deviations of 9.19 and 22.37, implies wide dispersion in the return on equity and earnings per share of the sample banks for the last ten years.

The minimum level of board members experience in financial sector is zero and the maximum is 100 percent. This depicts that at least a bank does not have industry experience. The minimum amount of women board members is zero, which shows that there are still banks that have no female directors in their boardroom. A wide dispersion is observed upon board meeting with a standard deviation of 21.1 with 8 minimum numbers of meetings and 108 meetings maximum.
Control variables, on average for the studied private banks are 8 billion birr of total assets (mean=8,082), 82 percent bank leverage ratio (mean=81.77), and 13 years old bank (mean=12.79), NBEB dummy variable (mean=0.50). Maximum values for these variables are 25 billion of assets, 92 percent leverage ratio, 21 old years of a bank and 1 (dummy) of NBE bills with respective minimum values of birr 224 million assets, 46 percent bank leverage ratio, and 1-year young bank. The corresponding deviations from their respective means are 5,641, 8.32, 4.46 and 0.504, respectively. These suggested that there is no wide dispersion in terms of control variables among the private banks control variables.

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>ROE</th>
<th>EPS</th>
<th>BZ</th>
<th>FD</th>
<th>BC</th>
<th>BEXP</th>
<th>BM</th>
<th>BS</th>
<th>BL</th>
<th>BA</th>
<th>NBEB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>3.05</td>
<td>24.48</td>
<td>40.93</td>
<td>9.83</td>
<td>0.07</td>
<td>3.66</td>
<td>0.29</td>
<td>29.27</td>
<td>8,083</td>
<td>81.77</td>
<td>12.79</td>
<td>0.50</td>
</tr>
<tr>
<td>Maximum</td>
<td>4.90</td>
<td>42.30</td>
<td>100.10</td>
<td>13.00</td>
<td>0.22</td>
<td>6.00</td>
<td>1.00</td>
<td>108</td>
<td>24,766</td>
<td>92.00</td>
<td>21.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Minimum</td>
<td>-2.40</td>
<td>-3.60</td>
<td>1.00</td>
<td>7.00</td>
<td>0.00</td>
<td>3.00</td>
<td>0.00</td>
<td>8</td>
<td>224</td>
<td>46.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>1.10</td>
<td>9.19</td>
<td>22.37</td>
<td>1.72</td>
<td>0.08</td>
<td>0.65</td>
<td>0.30</td>
<td>21.77</td>
<td>5,641</td>
<td>8.32</td>
<td>4.46</td>
<td>0.50</td>
</tr>
<tr>
<td>Observations</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Own Computation

4.1.1. Regression Results of the Three Models

The results of the three regression models that have been estimated to examine the impact of corporate governance mechanisms on the financial performance of selected private banks are presented below.

As it is summarized in the table below (Table 2), the $R^2$ for the three models are 69 percent, 70 percent, 82 percent for Model 1 (ROA), Model 2 (ROE) and Model 3 (EPS) models, respectively.

In addition, the F-statistic shows the joint significance of explanatory variables. The F-statistics of the three models (which is the regression mean square divided by the residual mean square) were 7.9, 8.4, and 16.7, respectively, and the null hypotheses of the three models were rejected at 1 percent significance level (i.e. p-value of zero for all the models) suggesting that variations in the dependent variables are adequately explained by the repressors in the model. Therefore, each model explanatory variables are jointly significant. As inferring from the results of $R$-squared and F-statistics, the implemented models of this research are well fitted that corporate
governance mechanisms have a significant effect on private banks’ financial performance.

### Table 2

#### Fixed Effect Regression Results of the Three Models

**Model 1: Return on Asset**
Method: Panel Least Squares

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.262750</td>
<td>3.821747</td>
<td>0.068751</td>
<td>0.9454</td>
</tr>
<tr>
<td>BZ</td>
<td>-0.222178</td>
<td>0.220020</td>
<td>-1.009807</td>
<td>0.3171</td>
</tr>
<tr>
<td>FD</td>
<td>2.006223</td>
<td>1.859208</td>
<td>1.079074</td>
<td>0.2854</td>
</tr>
<tr>
<td>BC</td>
<td>-0.678633</td>
<td>0.342781</td>
<td>-1.979787</td>
<td>0.0528</td>
</tr>
<tr>
<td>BEXP</td>
<td>2.774013</td>
<td>1.158661</td>
<td>2.393740</td>
<td>0.0202</td>
</tr>
<tr>
<td>BM</td>
<td>-0.008963</td>
<td>0.017854</td>
<td>-0.502033</td>
<td>0.6177</td>
</tr>
<tr>
<td>BS</td>
<td>-0.678633</td>
<td>0.342781</td>
<td>-1.979787</td>
<td>0.0528</td>
</tr>
<tr>
<td>BL</td>
<td>0.083056</td>
<td>0.018052</td>
<td>4.609967</td>
<td>0.0000</td>
</tr>
<tr>
<td>BA</td>
<td>-0.004769</td>
<td>0.111355</td>
<td>-0.042824</td>
<td>0.9666</td>
</tr>
<tr>
<td>NBEB</td>
<td>0.913285</td>
<td>0.340201</td>
<td>2.684546</td>
<td>0.0096</td>
</tr>
</tbody>
</table>

**Effects Specification**

Cross-section fixed (dummy variables)

<table>
<thead>
<tr>
<th>R-squared</th>
<th>0.687504</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R-squared</td>
<td>0.600700</td>
</tr>
<tr>
<td>F-statistic</td>
<td>7.920164</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.000000</td>
</tr>
</tbody>
</table>

**Model 2: Return on Equity**
Method: Panel Least Squares

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.647742</td>
<td>31.34644</td>
<td>0.020664</td>
<td>0.9836</td>
</tr>
<tr>
<td>BZ</td>
<td>-1.003822</td>
<td>1.804634</td>
<td>-0.556247</td>
<td>0.5803</td>
</tr>
<tr>
<td>FD</td>
<td>28.80904</td>
<td>15.24945</td>
<td>1.889185</td>
<td>0.0642</td>
</tr>
<tr>
<td>BC</td>
<td>-4.343043</td>
<td>2.811530</td>
<td>-1.544726</td>
<td>0.1283</td>
</tr>
<tr>
<td>BEXP</td>
<td>30.78323</td>
<td>9.505124</td>
<td>3.238593</td>
<td>0.0021</td>
</tr>
<tr>
<td>BM</td>
<td>0.007528</td>
<td>0.146443</td>
<td>0.051407</td>
<td>0.9592</td>
</tr>
<tr>
<td>BS</td>
<td>-0.000948</td>
<td>0.000475</td>
<td>-1.995494</td>
<td>0.0510</td>
</tr>
<tr>
<td>BL</td>
<td>0.485297</td>
<td>0.148064</td>
<td>3.277621</td>
<td>0.0018</td>
</tr>
<tr>
<td>BA</td>
<td>0.114974</td>
<td>0.913351</td>
<td>0.125881</td>
<td>0.9003</td>
</tr>
<tr>
<td>NBEB</td>
<td>9.424492</td>
<td>2.790371</td>
<td>3.377505</td>
<td>0.0014</td>
</tr>
</tbody>
</table>
4.1.2. **Link between Corporate Governance Mechanisms and Bank Financial Performance**

- **Board Size**
  
  As shown in Table 2, this study found that a board size has statistically insignificant negative beta coefficient of -0.22, -1.00, and -2.12 with p-values of 0.3171, 0.5803, and 0.5326 with return on asset,
return on equity and earnings per share, respectively. Thus, the effect of board size has an adverse effect (though insignificant) on bank performance, suggesting that banks with smaller board size tend to perform stronger compared to banks with larger board size.

This is consistent with findings of (Sanda et al. (2005); Bozec, (2005); Cheng et al., (2008); and Guest, (2008); Adusei (2011); Ferede (2012); and Manini and Abdillahi (2015)) who found a statistically insignificant negative relationship between board size and bank performance, though it contradicts with the findings of (Arosa et al., (2010); Haniffa and Hudaib, (2006); and Lehn et al., (2009)) who found significant positive relationship between board size and bank performance.

The outcome of the analysis of both quantitative (though insignificant) and qualitative data indicates that there is a negative relationship between board size and financial performance of banks in Ethiopia which could call the attention of the central bank to rethink about its positive expectation by increasing the board size.

- **Board Gender Composition**
  The relationship between percentage of female board directors and ROA, ROE, and EPS are positive with the coefficient of 2.01, 0.29, and 0.42 and p-values of 0.2854, 0.0642, and 0.1451, respectively. Thus, the significant positive coefficient of the percentage of women directors in terms of ROE at 10 percent significant level supports the hypothesis that is percentage of women directors has a positive impact on bank performance, while it has insignificant and positive relations with ROA and EPS.

  It is consistent with Erhardt et al. (2003) who found that percentage of female directors and the subsequent conflict that is considered to commonly occur with diverse group dynamics is likely to have a positive impact on the controlling function and could be one of several tools used to minimize potential agency issues.

- **Board Committees**
  The relation between number of board committees with ROA, ROE, and EPS is negative with the coefficient of -0.68, -4.34, and -0.42, with the respective p-values of 0.0528, 0.1283, and 0.9363, respectively. It is statistically significant with ROA at 10% significance level, and insignificant with ROE and with EPS. Thus, the number of board committees has significant adverse impact on ROA but insignificant negative effect on ROE and EPS.
This suggests that though its extent varies, an increase in the number of board committees decreases the financial performance of private banks in terms of ROA, ROE and EPS. Therefore, the number of board committees has negative impact on the performance of banks. The result is in contrary with Bussoli (2013) who argued that board committees are yardsticks for better functioning of banks, as the number of board committees has statistically significant positive impact on banks’ performance. Thus, it can be inferred, from both quantitative and qualitative results, that the number of board sub-committees have an adverse effect on the financial performance of private banks.

- **Board Members Experience in the Financial Sector**
  Board members experience in the financial sector is positively associated with all financial performance proxies i.e. ROA, ROE and EPS with beta coefficients of 2.77, 30.78, and 55.20, respectively. All the beta coefficients are significant at 5 and/or 1 percents significance level with p-values of 0.0202, 0.0021 and 0.0030 in that order. It means the higher the percentages of directors who have earlier working experience in the financial sector, the more positive influence they have on the banks financial performance of private banks in Ethiopia. Therefore, board members industry experience has positive and significant impact on the financial performance of private banks.

- **Frequency of Board Meetings**
  The association of frequency of board meetings is negative (coefficient = -0.01) with ROA and positive with both ROE and EPS with respective coefficients of 0.01 and 0.22, respectively. Frequency of board meetings impacts on ROA, ROE and EPS is insignificant with p values of 0.6177, 0.9592, and 0.4172, respectively. This suggests that increase in the number of board meetings per annum leads to an insignificant increase in the financial performance of private banks with regard to ROE and EPS, and to insignificant decrease with regard to ROA. Hence, frequency of board meeting has insignificant impact on the performance of banks but with mixed direction of causal relation with dependent variables.

  The insignificant positive relationship between frequency board meeting and ROE and EPS implies that increasing meeting frequency could slightly improve the financial performance of private banks. The result is consistent with previous studies such as (Bathula (2008); Ntim and Osei, 2011) in a way that the frequency of board meetings is a measure of board activities and effectiveness of its monitoring ability.
Private commercial banks have been conducting 29 average board meetings per annum (as per descriptive statistics – Table 1). While National Bank of Ethiopia which requires frequency of board meeting to at least once in a month. Thus, private banks are conducting board meetings more than twice of the regulatory requirement.

4.1.3 Link between Control Variables and Bank Financial Performance

- **Bank Size**
  Size of private banks (BS) as measured by size of total asset has a negative association with all bank performance proxies (ROA, ROE, and EPS). It has significant and negative association with ROE and EPS with negative coefficients -0.00 and -0.00 with respective p-values of 0.0510 and 0.0489, at 10 percent and 5 percent significance level, respectively. The regression result indicates that bank size has statistically insignificant and negative relationships with ROA with a coefficient of -5.59 and p value of 0.3386.
  
  The regression result on bank size is consistent with pervious empirical studies (Sanda el al (2005), Babatunde and Olaniran (2009), Amran (2011), Al-Manaseer el al., (2012), and Manmeet (2014) who concluded that firm size negatively influences banks financial performance. Nevertheless, it contradicts with Fanta el al (2013) who found significant positive relationship with firm performance.

- **Bank Leverage**
  The regression results show that bank leverage (BL) has significant and positive influence on bank performance as measured by return on asset, return on equity, and earnings per share. The statistical regression result with ROA, ROE, and EPS is significant and positive with coefficients of 0.06, 0.49, and 0.57 with respective p-values of 0.0000, 0.0018, and 0.0442, at 1 percent and/or 5 percent significant levels.
  
  The result indicates that banks with higher levels of debt as a percentage of total assets perform better than those having lower percentage of debt.

- **Bank Age**
  The regression results show that bank age (BA) has insignificant negative causal relationship with ROA and insignificant positive relationships with ROE and EPS. Bank age has insignificant influence on bank performance as measured by return on asset, return on equity and earnings per share with coefficients of -0.00, 0.12, and
0.51 with respective p-values of 0.9660, 0.9003, and 0.7651, respectively. This indicates that bank age (bank years in business in the industry) has showed mixed and insignificant impact on private banks financial performance. Its association varies among independent variables as it reveals both negative and positive relationships with bank performance indicators. The result is similar with Bathula (2008) who concluded that firm age does not have significant influence on the performance of firms.

- **Introduction of NBE- Bills (NBEB)**
  The regression results show that introduction of NBE bills (NBEB) has positive and significant causal relationship with all dependent variables. The NBEB has significant influence over banks performance as measured by ROA, ROE and EPS with coefficients of 0.91, 9.43, and 20.42 with respective p-values of 0.0096, 0.0014, and 0.0003. All are significant at 1 percent significance level. The result indicates that the introduction of NBE bills in the study period has significant positive impact on banks financial performance.

5. **Conclusion**

This study examined the impact of corporate governance on banks' financial performance by taking evidence from selected private banks in Ethiopia. As the study found, Board size needs to be optimal enough with better industry specific experienced directors to monitor executives and improve financial performance of private banks. Thus, the National Bank of Ethiopia needs to reconsider or give the freedom for individual banks to decide their own optimal level of their board size.

On the other hand, Private commercial banks need to include experienced female directors to enhance gender balance and to attract female clients of the bank as researchers found boards of banks are dominated by males. Moreover, the present study found that meeting frequency has insignificant negative impact on the financial performance of banks. Banks’ board of directors on average has been conducting 29 meetings per year more than twice of the regulatory requirement (i.e. at least 12 per year) that resulted inefficiencies and may be duplications of roles and responsibilities with the roles of bank executives. Hence, it’s better for the banks’ board of directors to limit frequency of board meetings to an optimum level to generate superior financial performance. In addition to that, National Bank of Ethiopia needs to revisit its corporate governance directives for banks.
especially in the area determination of proper board size and optimal level of frequency of board meeting of private banks. Finally, this study implies that the National Bank of Ethiopia needs to revise some its corporate governance policy in a way it improves the financial performance of Ethiopian Commercial Banking industry by considering factors which are significant under the current study.

Reference


